



Annual Report **2020**



KOMMUNEKREDIT
STEADY & STABLE

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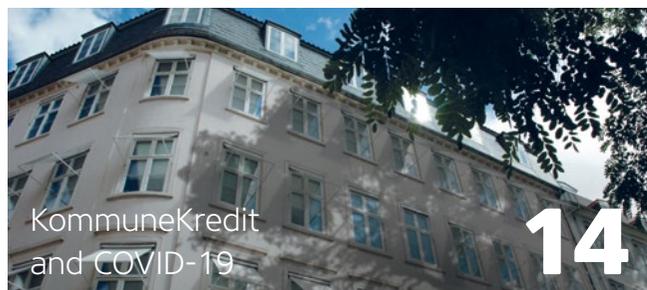
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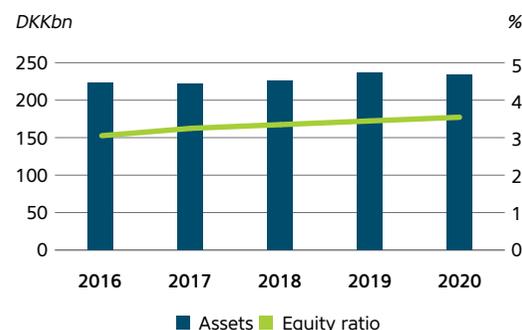
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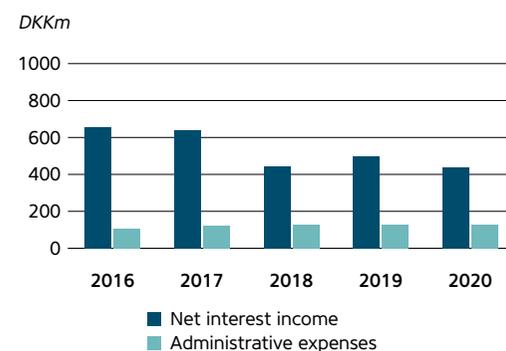


Key figures and financial ratios for KommuneKredit

Assets and equity ratio 2016-2020



Net interest income and administrative expenses 2016-2020



Million	2020	2020	2019	2018	2017	2016
	EUR	DKK	DKK	DKK	DKK	DKK
Key figures						
Net interest income	59	440	496	441	637	656
Other operating income	2	15	13	11	11	10
Other operating expenses	-2	-14	-13	-12	-14	-10
Administrative expenses	-17	-130	-126	-127	-123	-106
Profit before value adjustments	42	311	369	314	511	550
Value adjustment of financial instruments	-4	-33	227	227	117	89
Tax on profit for the year	-8	-60	-148	-119	-138	-141
Comprehensive income for the year	29	218	441	405	489	497
Lending and leasing	25,881	192,457	184,965	177,454	173,580	168,589
Portfolio of securities	4,514	33,568	44,982	42,944	42,361	34,049
Assets	31,451	233,872	236,935	226,609	222,564	223,938
Debt securities issued	28,607	212,728	218,932	208,218	202,145	202,642
Equity	1,129	8,397	8,179	7,736	7,333	6,844
Activities during the year						
Lending and leasing, net additions in nominal value (net lending)	680	5,057	2,427	3,554	5,022	8,998
Lending and leasing, gross additions in nominal value	5,851	43,507	36,745	38,261	29,835	31,113
Debt securities issued, gross additions in nominal value	5,804	43,163	49,699	60,055	71,379	85,963
Capital structure						
Total risk exposure amount (REA)	1,546	11,496	11,911	13,843	17,544	7,393
Common Equity Tier 1 (CET1) capital	1,129	8,397	8,179	7,736	7,333	6,844
Capital base	1,113	8,277	7,997	7,520	7,121	6,324
Capital ratio, pct.	72	72	67	54	41	86
Equity ratio, pct.	3.6	3.6	3.5	3.4	3.3	3.1
Selected financial ratios						
Losses on lending and leasing	0	0	0	0	0	0
Expenses/assets, pct.	0.06	0.06	0.05	0.06	0.06	0.05
Net interest income/assets, pct.	0.19	0.19	0.21	0.19	0.28	0.29
Liquidity resources, pct.	13	13	19	19	20	16
Selected ESG figures						
CO ₂ e Scope 2 (indirect) (t)	16	16	18	21	20	23
Gender composition (women), pct.	41.1	41.1	39.9	42.6	43.9	46.6
Board meeting participation, pct.	82.1	82.1	83.3	86.1	80.6	86.1
Number of full-time employees	82	82	76	70	70	66

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark. Exchange rate at 31/12/2020: EUR 100 = DKK 743.6126. The table includes selected ESG figures from the CSR report.

Selected financial ratios

HIGH INTERNATIONAL CREDIT RATING

KommuneKredit is rated by Moody's and Standard & Poor's. The outlook is stable.



Green bonds

DKK 3.9 billion

KommuneKredit issued green bonds totalling DKK 3.9 billion in 2020.



Liquidity Coverage Ratio (LCR)

198%

KommuneKredit has an LCR of 198 pct. based on CRR/CRD IV, which is well above the statutory requirement for banks of 100 pct.



ESG rating

KommuneKredit obtains an improved ESG rating (C+).



Equity ratio



3.6%

With an equity ratio of more than 3%, KommuneKredit has an adequate capital position.

Risk weight

0%

There is a risk weight of 0% when banks invest in KommuneKredit's bonds.

KommuneKredit's education fund

The purpose of the fund is to further the development of training and education for members of municipal committees and for staff in municipalities, regions, inter-municipal undertakings and associations. The fund offers grants for expenses in connection with planning and preparation, including expenses for course material.

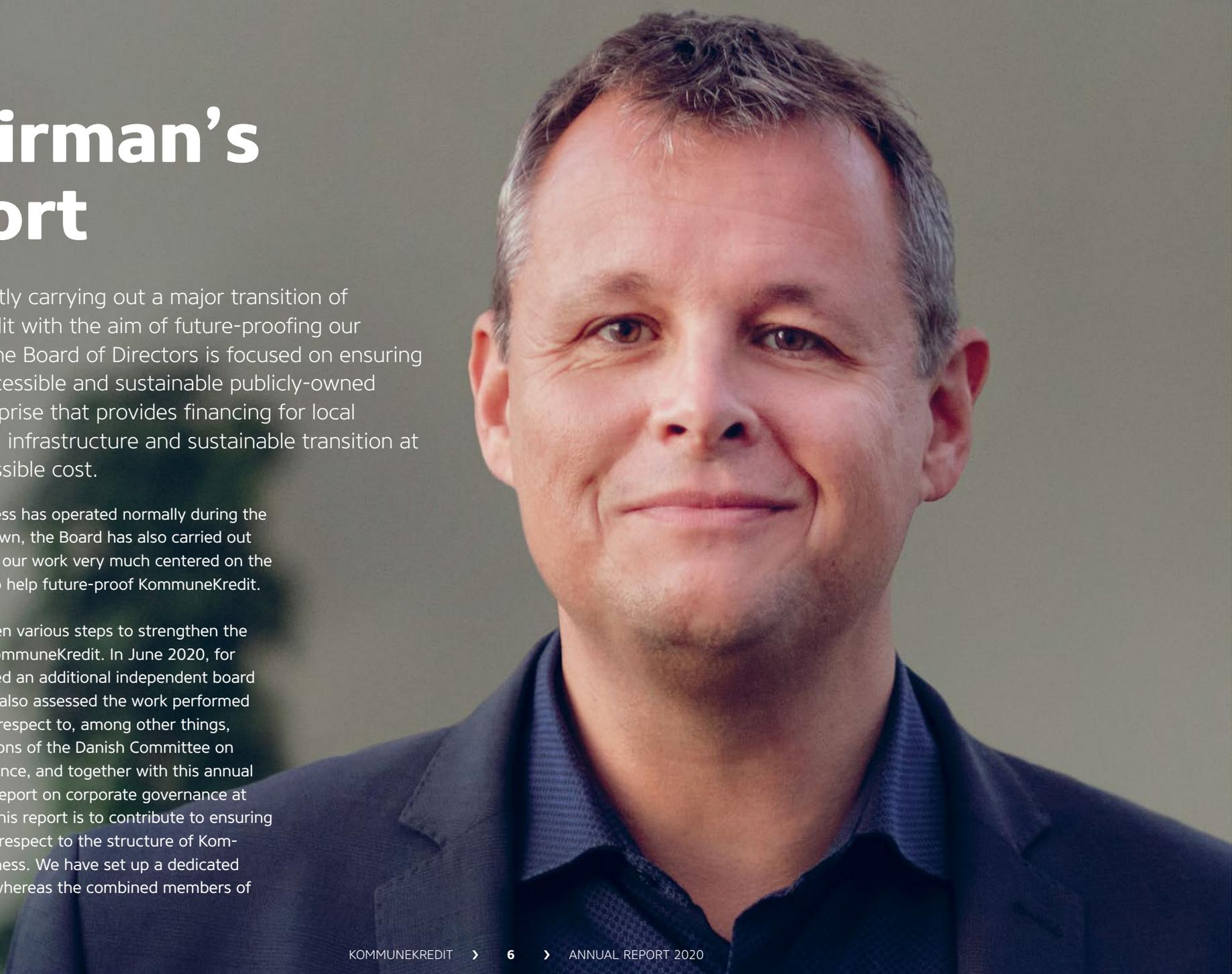
In 2020, KommuneKredit's education fund made grants totalling DKK 650,000 for the development of training and education activities.

Chairman's report

We are currently carrying out a major transition of KommuneKredit with the aim of future-proofing our association. The Board of Directors is focused on ensuring a well-run, accessible and sustainable publicly-owned financial enterprise that provides financing for local investments in infrastructure and sustainable transition at the lowest possible cost.

Just like the business has operated normally during the coronavirus lockdown, the Board has also carried out its duties. In 2020, our work very much centered on the transition that is to help future-proof KommuneKredit.

The Board has taken various steps to strengthen the management of KommuneKredit. In June 2020, for example, we elected an additional independent board member. We have also assessed the work performed by the Board with respect to, among other things, the recommendations of the Danish Committee on Corporate Governance, and together with this annual report we issue a report on corporate governance at KommuneKredit. This report is to contribute to ensuring transparency with respect to the structure of KommuneKredit's business. We have set up a dedicated audit committee, whereas the combined members of



the Board previously made up the audit committee. This step provides us with a good opportunity to delve even deeper into selected areas of our business. Lastly, we have initiated an external evaluation of the Board's skills, which we expect to be completed ahead of the elections for municipal and regional councils in autumn 2021.

On 3 December 2020, the Board adopted an updated strategy for KommuneKredit – Strategy 2025. The strategy builds on the work of our Strategy 2022 and is consistent with the developments we have undergone since that strategy was launched in 2017.

For our new strategy, we have formulated six strategic priorities:

The good customer experience

We must develop the KommuneKredit of the future in a way that benefits our customers. We must be able to provide advice based on well-defined products and clear communication on funding options. Customers should experience a smooth and seamless service throughout the value chain – from initial contact until the engagement ends. Digital options should be available for commitment overviews and self-service solutions.

Steady and stable market player

We must be a steady and stable link between the Danish municipalities and regions and the capital markets. At all times, we must be able to service our customers at the lowest possible cost regardless of market conditions. Customers, investors and authorities should al-

ways have full trust in KommuneKredit and this should be ensured through stable financial key figures, an optimised balance, careful risk management and robust systems and risk models.

Simple and robust IT framework

We must have a simple and flexible IT architecture that accommodates our business needs and ensures operational efficiency. We need a system portfolio based on the best standard systems in each area and standardised integration technologies. IT security levels must be high and match the requirements for the financial sector.

Transparency and a solid reputation

We must comply with the norms and standards applicable to both a well-run financial company and a publicly-owned business. We aim for transparency in our products, lending and leasing activities, risk management and sustainable initiatives. Transparency should support our reputation and the prevalence of good stories about KommuneKredit among decision makers and key stakeholders.

Professionalisation

Professionalisation concerns our employees, core values and culture. We must integrate our core values into everything we do. We must promote a culture that encourages cooperation and resoluteness and where we learn from our mistakes. We must be a high performance and agile organisation that possesses the right skills to achieve our desired strategic development while ensuring we are operationally secure and stable.

»»*The Board of Directors is focused on ensuring a well-run, accessible and sustainable publicly-owned financial enterprise that provides financing for local investments in infrastructure and sustainable transition at the lowest possible cost.*»

Integrating sustainability into our business model

KommuneKredit must support the green transition ambitions of the Danish local governments by providing funding at the lowest possible cost. We do that by financing investments with green and other sustainable bonds that adhere to applicable and relevant standards and by future-proofing our business through a strong ESG profile anchored within the entire organisation.

Our ambitions with Strategy 2025 are directed at our customers. KommuneKredit's objective is to create financial latitude across Denmark – from the capital to the smallest local communities – and all changes at KommuneKredit must be to our customers' benefit. By continuing our strategic development of KommuneKredit, we safeguard our business model of the past 122 years which has ensured cost-effective financing for local public-sector projects on equal terms for all – while we build a KommuneKredit for the future.

Lars Krarup
Chairman

CEO letter

Worldwide, 2020 was a highly unusual year characterised by the COVID-19 pandemic. At KommuneKredit, the effect was that we mainly worked in new ways and from home, both in our day-to-day operations and in our development efforts, which worked surprisingly well.

KommuneKredit continued to report a stable and satisfactory financial performance in 2020. At DKK 440 million, our net interest income was slightly higher than expected going into the year, while costs of DKK 130 million were lower than expected. This development was first and foremost driven by a timing difference related to the cost of our transformation programme, which is the collective designation for the business and IT projects we pursue to develop and implement processes and IT systems for the future KommuneKredit as part of our new Strategy 2025. In addition, we incurred fewer operating expenses than expected because of the COVID-19 lockdown. Overall, KommuneKredit reported a pre-tax profit of DKK 278 million, against a projected DKK 250 million at the start of the year.

Apart from a brief period in March and April, our financial markets have been relatively calm during the pandemic, and we have been able to obtain funding on unchanged terms. The immediate market response to the pandemic was a widening of yield spreads, but spreads have contracted again. Regardless of market conditions, our business model specifies that we pass on both increases and decreases in funding costs to our borrowers at a modest margin to cover our costs and any need for additional equity. We do not pay dividends.

Our lending and leasing rose by DKK 7.5 billion to DKK 192.5 billion in 2020. As examples of our lending and leasing, I would like to mention that we lent DKK 2 million for a winter bathing facility at Køge Vikingelaug Valkyrien, we lent DKK 96 million to Lolland Varme for an extension of the utilities area, we leased a linear accelerator costing DKK 15 million to the Capital Region, we lent DKK 300,000 to Vejby Kulturhus for a green education and community venue, and we lent just over DKK 57 million for an environmentally friendly extension of the sewer system in Ringsted, which is described on page 35.

Increased focus on sustainable finance

As part of the transformation programme, we have started to update our Green Bond Framework, which is the framework for our green bond issues. This is to keep up with EU developments in standards and guidelines for green financing.

Concurrently with these efforts, we have endeavoured to enhance our green impact reporting to provide stronger documentation of the positive impact that our green loans have on the climate and the environment. These activities will continue in 2021.

» Apart from a brief period in March and April, our financial markets have been relatively calm during the pandemic, and we have been able to obtain funding on unchanged terms.”

Jens Lundager
CEO

In 2020, our Green Bond Committee, with the participation of two external experts, approved 94 new green loans at a value of DKK 3 billion as a basis for our green bonds. With the latest approvals, which are testament to the continuing green transition activities in the Danish municipalities and regions, the Committee has approved green loans totalling DKK 22 billion. We fund the green loans by issuing our green bonds, and in 2020, we issued a green bond for the fourth consecutive year; a benchmark of EUR 500 million with a term to maturity of 20 years. In addition, we made a green private placement issue for AUD 40 million.

KommuneKredit's lending framework

The Ministry of the Interior and Housing has defined detailed rules for the capacity of local governments to raise loans and provide guarantees. KommuneKredit's lending and leasing activities are subject to these rules. Furthermore, the loan purpose, i.e. the specific investment, must comply with Danish regulation on public sector tasks performed by local governments and EU state aid rules. Obviously, we closely monitor changes to the relevant rules and regulations, as this might both expand and limit our lending.

In the utilities segment, for example, KommuneKredit provides loans for district heating investments through-

out Denmark. We do so after thoroughly assessing whether the loans may be granted within the framework of the EU's state aid rules and European Commission practice. We currently have outstanding loans to district heating companies with a market value of DKK 33 billion. Furthermore, we have outstanding loans for waste incineration plants that produce a large proportion of the district heating supply, with a market value of just over DKK 12 billion.

In continuation of the political climate agreements concluded in June 2020, decisions are expected to be made during 2021 on the regulation of district heating and waste incineration, respectively. In this context, it is crucial to have clarity about the premises for KommuneKredit to continue to provide loans for these capital expenditures. We have contacted the Danish Ministry of Climate, Energy and Utilities for clarification on this issue.

Strategy and transformation programme

In 2020, KommuneKredit recorded strong progress in its development projects under Strategy 2022. We have implemented initiatives to optimise workflows and mitigate operational risk in our lending process. We have created the foundation for improved data quality by establishing a data warehouse which covers large parts

»» *At the beginning of December, the Board of Directors adopted Strategy 2025, which maintains and strengthens the strategic development that KommuneKredit launched in 2017 under the previous Strategy 2022.*

Jens Lundager
CEO

of our business and which we will continue to extend in 2021. In addition, we are currently modernising our central IT systems relating to both our lending and leasing. For the latter, we have upgraded Focus Finance, finalising the technical preconditions for the project and regularly implementing new functionality. For the former, we have completed the first phases of a new loan administration system. At the end of the year, we were well underway with the planning and preparation phases, which precede the upcoming implementation.

Our initiatives with respect to both the lending and leasing systems will continue in the coming years. Another strategic focus area in 2020 was good leadership, which we have pursued at all levels of our organisation. For example, we have aimed at integrating our management values into our HR processes, such as management and employee performance interviews, management evaluations and satisfaction surveys to support the implementation throughout the business. In addition, all heads of department and team managers have attended a joint management training programme.

At the beginning of December, the Board of Directors adopted Strategy 2025, which maintains and strengthens the strategic development that KommuneKredit launched in 2017 under the previous Strategy 2022. The strategy will to a large extent be executed through our transformation programme.

KommuneKredit post COVID-19

As a result of the lockdown in connection with the outbreak of COVID-19, KommuneKredit's employees have been working from home almost exclusively since 12 March 2020. From the start of the crisis, our employees have worked as a team to solve the new challenges, and we have proved capable of serving our customers regardless of difficult circumstances. Our annual satisfaction survey, most recently conducted in November 2020, showed that our employees still have a high degree of work enjoyment and loyalty – also when working from home.

Jens Lundager
CEO

Safe and valuecreating

KommuneKredit plays an important role in helping to grow and develop Danish society. KommuneKredit enables Danish municipalities and regions to achieve their ambitions to create the best conditions and most sustainable solutions by providing financing at the lowest possible cost.

For example when local communities establish new and modern facilities to support community activities or when regions install new kitchens in hospitals. Or when municipalities lease cargo bicycles that allow day care providers to transport the children more easily, build modern, subsidised housing for the elderly to improve their quality of life, or build roadside ducts to protect urban areas against cloudbursts. Another example is financing for Danish waterworks when they roll out new technology to ensure that we can safely continue to drink our tap water.

Regardless of the size of the project or where in Denmark it takes place, we offer financing at the lowest possible cost and on equal terms for everyone. In this way, we not only create

equal opportunities across Denmark – we also create cohesion and a platform allowing municipalities and regions and, ultimately, our citizens to get as much growth and development for their money as possible.

We fund our loans by issuing bonds to investors all around the world. KommuneKredit is an association, and our members – all municipalities and regions in Denmark – are jointly and severally liable for our liabilities. This approach allows us to borrow funds at a very low rate of interest. As our administrative expenses are quite low – and we do not have to make a profit on our lending and leasing operations or pay dividends to our owners – our members are secured the lowest possible interest on their loans.

On the basis of strong financial capabilities and a profound respect for the responsibility that comes with being the credit provider for municipalities and regions, we thus create a secure and stable link between global funding and local lending – both now and in the future.

Mission



KommuneKredit shall contribute to financial latitude in Danish municipalities and regions by providing funding and financial advice at the lowest possible cost.

Vision

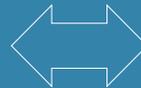


We will always be the best funding choice for our customers, regardless of the given framework.

We will be modern, efficient and engaged, with a focus on high quality, steadiness and stability.

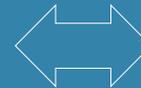
Joint and several liability – an unconditional strength

All of Denmark's municipalities and regions are members of KommuneKredit. They have joint and several liability for our obligations, and combined with our very secure business model this provides KommuneKredit with the highest possible credit rating – in line with that assigned to the Kingdom of Denmark.



KOMMUNE
KREDIT

STEADY
& STABLE



Joint and several liability

KommuneKredit is an association. Members
– Denmark's 98 municipalities and 5 regions
– represent the entire Danish population
and are jointly and severally liable for our liabilities

Safe link

Acting as a safe link between global
funding and local lending, KommuneKredit
provides a financial foundation for
developing the Danish welfare society.

Funding of lending

KommuneKredit funds its lending by issuing
securities in the Danish and international
capital markets.

Steady, stable and agile in a year marked by COVID-19

KommuneKredit's business model is steady and stable. In 2020, we proved that we are also agile and adaptable. Through a common effort, we have upgraded skills and processes to ensure that municipalities and regions could count on financing through KommuneKredit – even during a pandemic like COVID-19.

Even before the Danish prime minister decided to impose lockdown measures in Denmark in March, KommuneKredit had prepared emergency drills to test that our business could still be operated 100% at a distance. And it could. From day one of the national lockdown, our employees worked as a team to solve all challenges. We established separate channels to share internal information, issued COVID-19 hygiene guidelines, established good home workstations, held virtual status meetings and forums for knowledge-sharing, and implemented digital solutions, while completing all operational tasks as usual.

Satisfaction survey 2020:

80



Our 2020 job satisfaction survey showed that our employees have a high degree of work enjoyment – also when working from home

The work enjoyment score is 80 out of 100 on the GELx scale, which is high for the industry.

Number of managers attending distance management training programme:

11



Number of days in per cent on which KommuneKredit could maintain business as usual:

100%



» I am proud of our efforts throughout 2020. We managed to run KommuneKredit 100% during the COVID-19 pandemic. Fully in line with our values, we have gained digital capabilities and incorporated new processes in record time. These results demonstrate that together we stand prepared to lift our association into the future.

Jens Lundager
CEO, KommuneKredit

KommuneKredit's role in the Danish society

By offering financing at the lowest possible cost, KommuneKredit helps ensure that all Danish citizens obtain as much growth and development as possible for their tax money.

KommuneKredit provides lending and finance leases to Danish municipalities, regions, inter-municipal partnerships and to companies undertaking municipal or regional tasks.

We are governed by Act No. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities

in Denmark (lov om kreditforeningen af kommuner og regioner i Danmark). Section 5 of the act stipulates that members of KommuneKredit are jointly and severally liable for all of KommuneKredit's liabilities. The 98 municipalities and 5 regions are all members. Thus, KommuneKredit has close ties to the Danish municipal and regional sectors.

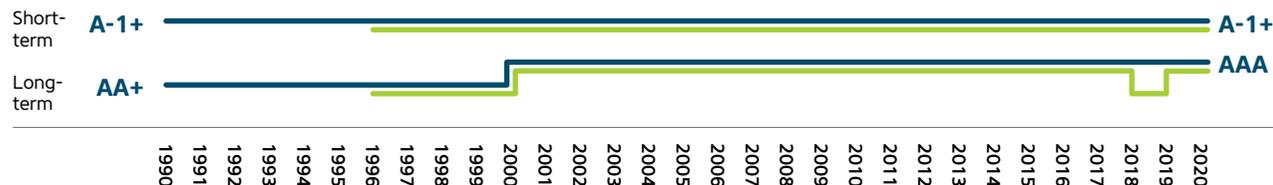
Historical ratings of the Danish Central Government and KommuneKredit

— The Danish Central Government — KommuneKredit

Moody's



Standard & Poor's



Strong creditworthiness

KommuneKredit has the highest possible rating by the international rating agencies Moody's Investor Service (Aaa) and Standard & Poor's (AAA). This is in line with the credit rating assigned to the Kingdom of Denmark.

The rating agencies base their assessment on the following factors:

- strong capitalisation;
- highly creditworthy borrowers and high-quality assets;
- very strong market position; and
- our members' joint and several liability.

Another factor behind the high credit rating is that KommuneKredit plays an important role in the economy as the main provider of funding to the Danish municipal and regional authorities.

Healthy Danish economy

The Danish economy is healthy and competitive, and Danish society is based on high institutional efficiency, mature political and institutional frameworks that encourage fiscal discipline and a relatively low national debt.

Denmark has been a member of the EU since 1973, but has opted out of the single currency, the euro (EUR). This means the currency in Denmark is the krone (DKK).

Macroeconomics Q3 2020	DK	EU27
GDP nominal growth YTD	-2.5 %	-3.8 %
Consumer prices	0.3 %	0.7 %
Unemployment, year-end	6.0 %	7.7 %
Government budget balance as pct. of GDP, YTD	-1.8 %	-6.6 %
EMU debt as pct. of GDP	42.4 %	89.8 %

Source: Eurostat

Municipalities and regions ensuring the Danish welfare society

Denmark has one of the most decentralised public sectors in the world, with public sector tasks divided between the central government, municipalities and regions. Danish municipalities and regions combined represent more than half of public expenditure.

Municipalities attend to most of the tasks directly related to citizens and are responsible for most of the public services offered by the Danish welfare system. These include schools, elder care, day care facilities for children and young people, employment-creating measures, social integration of marginalised people, local roads, the environment, culture and the arts.

Municipalities are also responsible for planning various utility services to citizens, such as water and heating supplies, as well as the access to provide these services via municipal companies.

The regions are responsible for tasks which require a larger catchment population than that represented by even the large municipalities in Denmark. The regions'

Municipalities and regions are key to the Danish welfare society



Central government

Foreign policy, defence, police, universities, major roads, railways, supervision and equalisation.



5 regions

Hospitals and healthcare, regional development and public transport as well as specialised social institutions.



98 municipalities

Day care facilities for children and young people, elder care, schools, public transport, utilities, environment and employment.

The municipalities and regions are responsible for most of the services offered by the Danish welfare society.

Municipalities and regions are defined by law and their right of self-government is set out in the Danish constitution and other legislation.

responsibilities include hospitals, regional development, participation in regional public transport companies, and specialised social institutions.

Central government bears the risk associated with cyclical fluctuations

Income taxes paid by the citizens represent a little more than half of the income for municipalities. The rest of the income are block grants and central government reimbursements as well as user fees and property taxes that are set by the individual municipalities.

As a rule, municipalities finance their capital expenditure through current revenue - without raising loans. However, municipalities may raise loans for municipal capital expenditure within the framework set by the Danish Ministry of the Interior and Housing. In addition, municipalities can provide loan guarantees for other entities' capital expenditure provided such guarantees are authorised under municipal law (e.g. utility companies). The Danish municipalities' debt-to-equity ratios are low in an international perspective.

Denmark has an extensive economic equalisation system between the municipalities that enables the municipalities to offer a more uniform level of service regardless of each municipality's tax base and service expenditure.

The overall economy of the municipalities is not affected by economic cycle setbacks, as central government bears the risk associated with general economic trends. Municipalities receive compensation for excess expend-

iture related to transfer payments and reduced tax revenues caused by an economic slowdown.

It is a basic principle under Danish administrative law that a municipality cannot be declared bankrupt. This principle was also upheld in a High Court ruling, referring to the fact that the supervisory authority, the Government, must ensure that a municipality is able to meet its financial obligations.

Regional funding consists of government grants and municipal contributions and charges. Regions may raise loans for specific capital expenditure within the framework set by the Danish Ministry of the Interior and Housing. The decline in KommuneKredit's share of municipalities' and regions' long-term debt is, among other things, due to the fact that employees' holiday funds in 2020 are recorded as long-term debt in the regions.

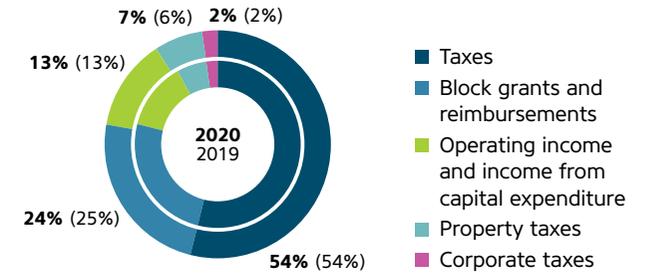
Throughout its history, KommuneKredit has never suffered loan losses.

The Danish municipalities and regions are characterised by high creditworthiness, which is expressed in a CRR/CRD IV risk weight of 0 pct. The risk weight is used to calculate credit institutions' capital requirements. A risk weight of 0 pct. means that municipalities and regions belong to the most secure category, in which no losses are expected.

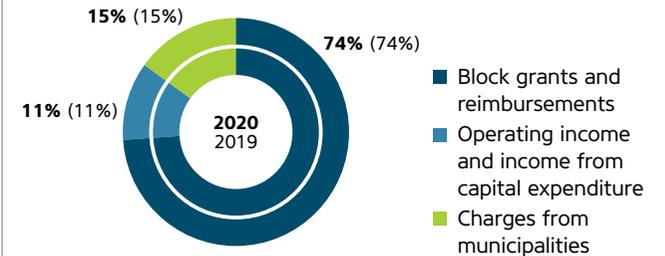
Ministerial supervision

The Ministry of the Interior and Housing is the ultimate supervisory authority in respect of local authorities.

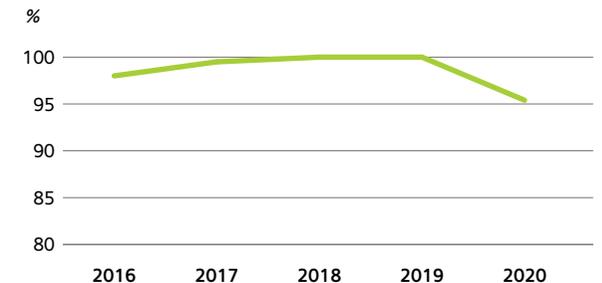
Budget for the municipalities' income base



Budget for the regions' income base



KommuneKredit's share of municipalities' and regions' long-term debt



The statement does not include employees' holiday funds for the municipalities.



Famous brother and sister to share a home once again

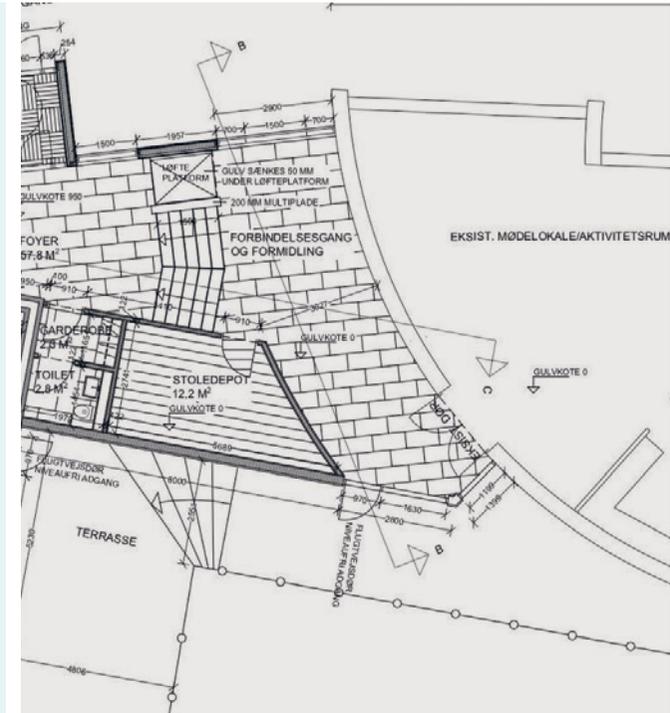
Fascination and a sense of identification across generations and gender was the common impetus in the town of Farsø in the Municipality of Vesthimmerland that motivated local people to create a cultural attraction with both national and international interest. Two of Denmark's best-known literary personalities have moved back into their old childhood home together: writer and Nobel Prize winner Johannes V. Jensen and his younger sister Thit Jensen, who was a writer and women's rights activist.

Originally, the childhood home in Farsø only housed the Johannes V. Jensen Museum, while the Thit Jensen House was located at the other end of town. Following huge efforts, the museum management and support associations achieved their goal in the summer of 2019. An extension and connecting corridor have ensured that the two strong personalities are once again united in what is Denmark's only writers' museum for a brother and sister. The two writers were very different, colourful characters who, each in their own way, made a strong impact on Danish culture and the public debate during their lifetime. The museum hopes to attract national as well as international visitors, who will have ample opportunity to delve into both authorships. In March 2020, the museum was selected as a venue on the Danish Poets' Route.

» We started negotiations with the municipality in 2012 about purchasing the neighbouring building, but the financial solution of grants and loans was not reached until 2018. It has been a long struggle, and we would not have made it without the support of the municipality and the guarantee it provided for the loan from KommuneKredit.

Peter Hørup
Museum manager

The museum extension was financed by a loan from KommuneKredit.



Facts

- Borrower:** Johannes V. Jensen and Thit Jensen Museum
- Guarantor:** Municipality of Vesthimmerland
- Loan purpose:** 180 square-metre extension of the Johannes V. Jensen Museum
- Loan amount:** DKK 1,000,000
- Construction period:** 2018-2019

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk



KommuneKredit covers the local financing requirements

For more than 120 years, KommuneKredit has provided financing at the lowest possible cost to Danish municipalities and regions. Today, we cover more or less the entire local need for raising loans. The terms and conditions are the same for all customers no matter where in Denmark a project is completed and how big it is.

Out total loans and leasing rose by DKK 7.5 billion to DKK 192.5 billion at the end of 2020. Of this increase, DKK 5.1 billion was net lending, which is new lending less repayment instalments and redemptions.

We have granted 54% of the lending directly to municipalities and regions for the funding of public purposes, such as port infrastructure, housing for the elderly, climate proofing initiatives, hospital equipment and vehicles for the municipal home care service.

The remainder of the loans we provided to companies or institutions which carry out public tasks, for example local sports centres, theatres and schools as well as companies providing public services within heat supply, waste and wastewater management or the production of drinking water.

Continuing high lending and leasing activity

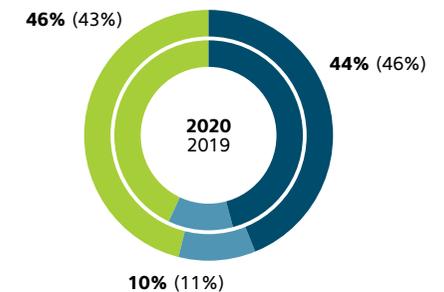
In 2020, KommuneKredit disbursed more than 800 new loans totalling DKK 41 billion.

Of this amount, remortgaging of floating-rate loans and interest margin into fixed-rate loans accounted for DKK 10 billion due to the very low level of interest rates.

KommuneKredit has at times been able to offer both floating rate loans and fixed-rate loans with negative interest rates.

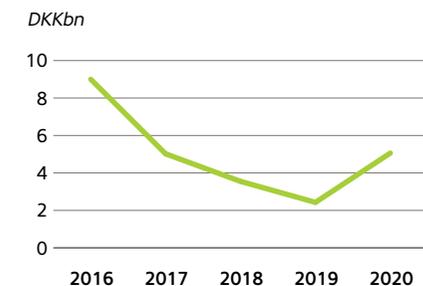
Because of COVID-19, the government and Local Government Denmark (KL) reached an agreement in the spring, part of which involved removing the capital expenditure cap for municipalities. The agreement resulted in an increase in lending activity of about DKK 1.5 billion, which we expect will continue in 2021.

Total lending and leasing by borrower



- Municipalities
- Regions
- Companies or institutions which carry out public tasks

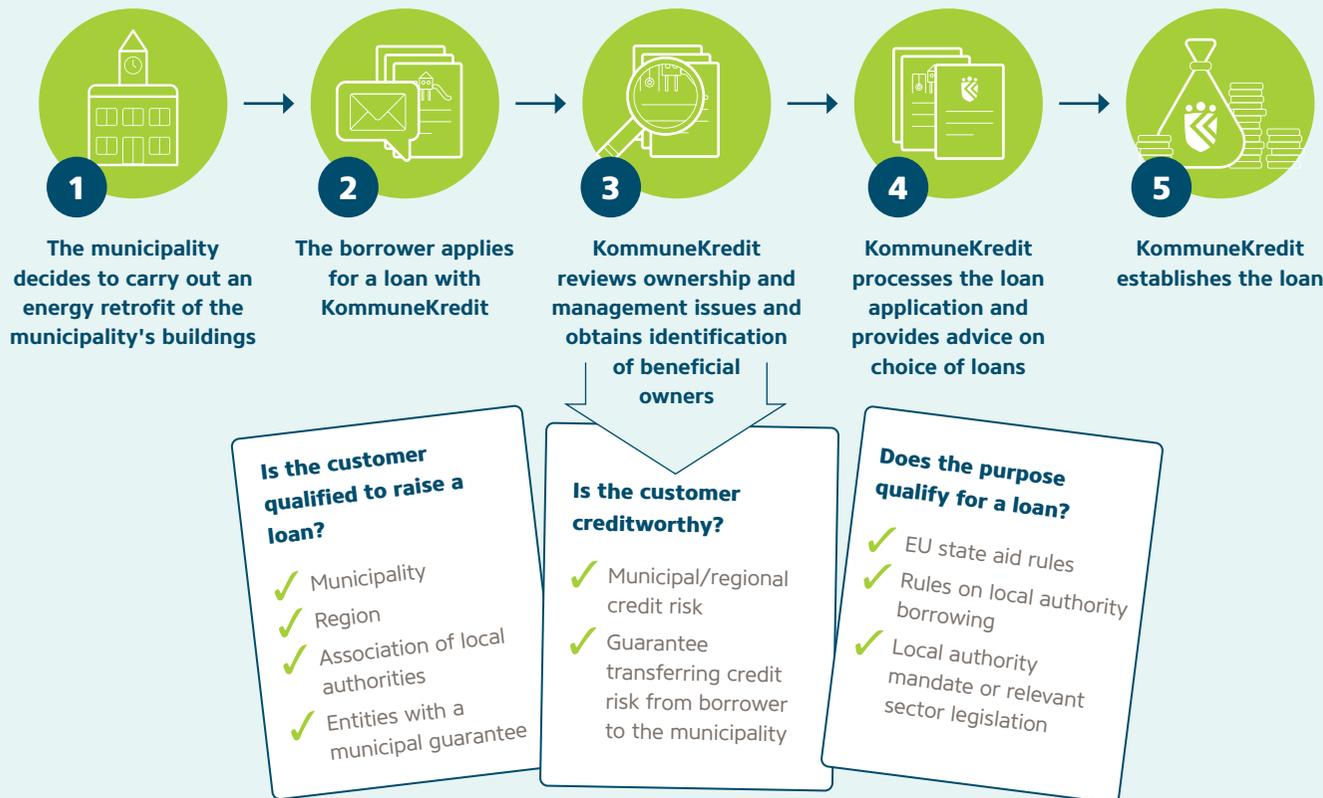
Development in net lending



The good customer experience

KommuneKredit provides funding for projects whose implementation is determined on the basis of democratic processes. This means that local or regional democratic support has been established for the investments for which municipalities or regions want to borrow funds through KommuneKredit.

Example



» We endeavour to create financial latitude in Danish local communities by offering funding at the lowest possible cost."

Henrik Andersen
Managing Director

> LENDING OG LEASING

In addition, municipalities and regions entered into more than 2,600 new lease agreements with KommuneKredit for DKK 1.6 billion. The lease agreements cover many different types of assets, but typically the agreements cover the leasing of vehicles, vans, IT equipment and hospital equipment.

We support the green transition

KommuneKredit's Green Bond Committee uses fixed criteria to assess whether a loan qualifies as a green loan. In 2020, the Green Bond Committee approved 94 loans as being green, with total lending of a little more than DKK 3 billion. The majority of the approved green loans were earmarked for projects in district heating and water and wastewater management, while a small part of the loans were granted for projects within energy-saving initiatives.

In 2019, KommuneKredit introduced a digital green certificate, which borrowers can use e.g. on their websites or in publications to show they have raised a green loan

with KommuneKredit. 286 customers have been awarded the green certificate.

KommuneKredit expects green funding to account for an ever-increasing proportion of the overall loan portfolio. Green funding is a strategic priority in our Strategy 2025, in which we aim to integrate sustainability in all parts of our business model.

User-friendly customer journey

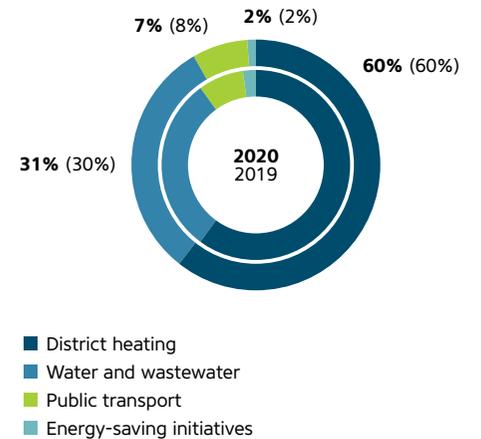
KommuneKredit has defined an ambition that it should be easy to be a customer. Accordingly, another of the strategic priorities of Strategy 2025 concerns the good customer experience. On the basis of the Straight Through Processing (STP) approach, we aim to provide system support and thereby automate our processes throughout the lifecycle to ensure easy and user-friendly handling of our loan and lease agreements. The digital transformation of customer journeys will be completed over the coming years.



» *Green funding is a strategic priority in our Strategy 2025 in which we aim to integrate sustainability in all parts of our business model.*

Christian Jeppesen
Director, Head of Department

Approved green loans by purpose



Strategy 2025

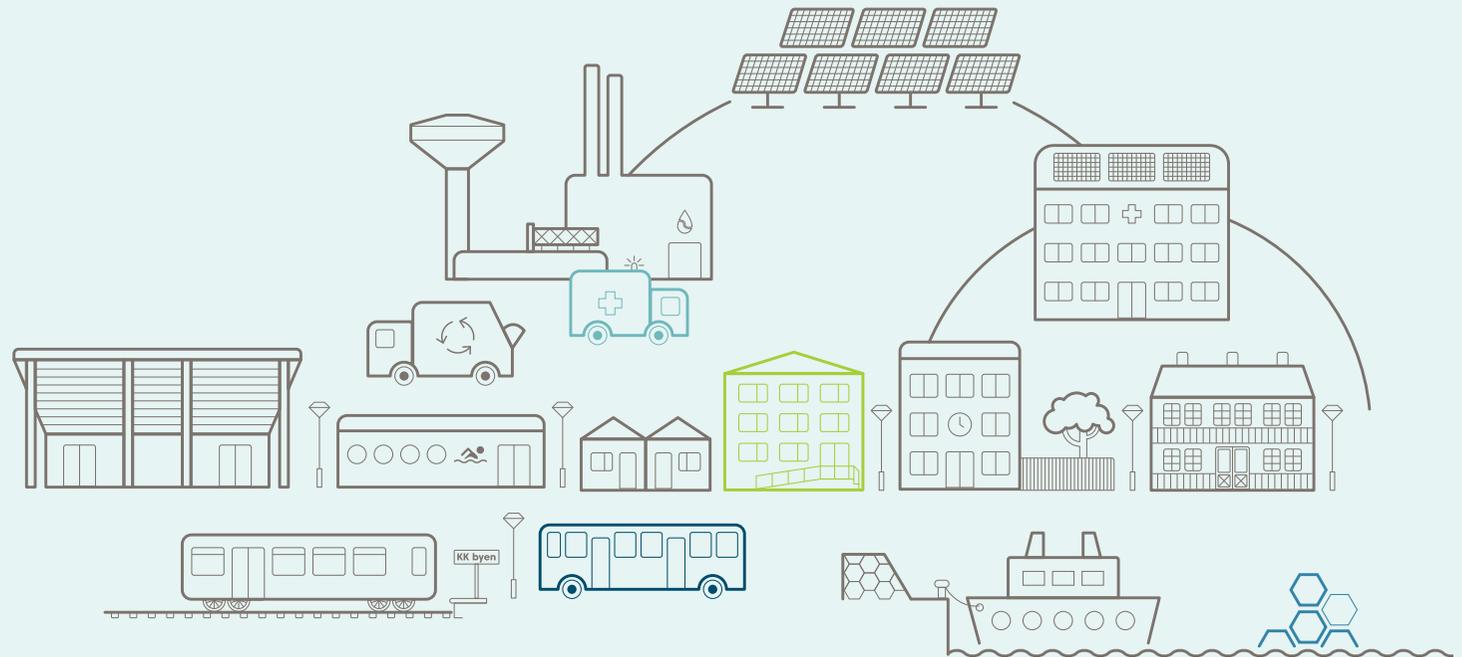
<https://www.kommunekredit.dk/en/about/strategy-2025-2/>

KommuneKredit financing growth and development

Our loans finance many different types of local projects in Danish society, including green investments as well as an expansion and improvement of the infrastructure.

KommuneKredit has financed a large number of municipal projects:

Waste incineration with heat utilisation, district heating supply plants and district heating distribution, waste water plants, water supply plants and water distribution, heat-producing solar collector systems, general energy-saving measures, waste disposal collection, fire engines, ambulances, medtech equipment, IT equipment, sports centres, swimming pools, housing for refugees, residential care facilities, schools, city museums, light rail solutions, city buses, energy-efficient LED street lights, climate proofing initiatives, local ferries, coastal protection.



2,102

subsidised loans

Subsidised loans financing residential care facilities and housing for the elderly.

8,080

vehicles

Registered vehicles leased to customers include ambulances, fire engines and vehicles for the municipal home care service.

572

electric vehicles

Of all the registered vehicles, 572 are electric.

4

coastal protection projects

The projects include the building of dikes and floodgates.

A funding strategy proving its worth

KommuneKredit had no difficulty sourcing funding throughout 2020 despite the impact that COVID-19 had on the capital markets and pricing fluctuations early in the year. Our funding strategy actively supports balance sheet optimisation and especially our ambition to always support our customers' borrowing needs – also during prolonged periods of extreme stress in the financial markets.

A stable funding year despite COVID-19

KommuneKredit's funding strategy is a tool we use to ensure the optimum match between lending, funding, hedging and investment, thereby supporting a steady and stable management of KommuneKredit's balance sheet composition.

KommuneKredit pursues a strategy of diversifying its bond issues on several markets to ensure that, being an Aaa/AAA issuer, we maintain a broad and diversified investor base. In 2020, the largest issuance currencies were once again EUR, USD and DKK.

In recent years, we have experienced that our customers increasingly opt for fixed-rate loans with long maturities. Consequently, funding maturities were extended in 2020. The longer maturities in 2020 encompassed quite a few small issues with a relatively

diversified range of maturities. There was an increase in the number of issues from 2019 to 2020, while the total issuance amount was lower than in 2019.

In spite of a brief period of unsatisfactory market pricing in spring 2020, KommuneKredit sourced funding throughout the year in requested maturities without deviating from our funding strategy. Throughout the year, we generally sourced a relatively larger share of our funding by offering bonds in existing issues. In addition, we returned to making private placements especially with longer maturities to support our matching of maturities between lending and funding.

At the end of August 2020, KommuneKredit issued green bonds for EUR 500 million. The bonds have a maturity of 20 years and were issued in accordance with the Green Bond Principles of ICMA (International Capital

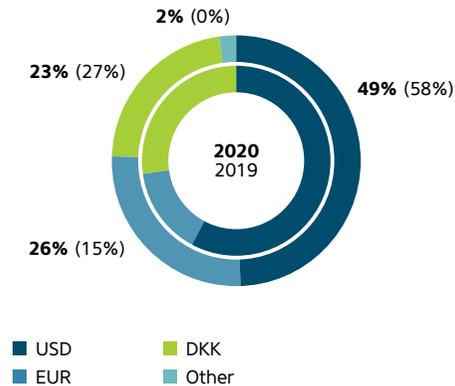


»» *Our funding strategy actively supports balance sheet optimisation and especially our ambition to always support our customers' borrowing needs – also during prolonged periods of extreme stress in our financial markets.”*

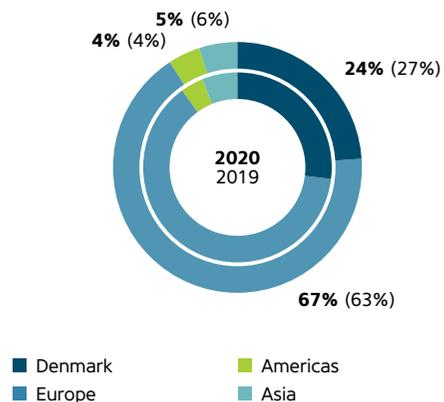
Jette Moldrup
Director, Head of Department

> FUNDING

The year's funding by currency



The year's funding by market



Market Association). The bonds attracted interest especially from investors having either a green or ESG-based profile, who accounted for a little over 70% of the order book. This was the fourth time we issued green bonds. Since 2017, we have issued green bonds totalling DKK 17.1 billion.

As in previous years, we issued bonds to fund subsidised adjustable-rate loans for municipally-owned residential care facilities and housing for the elderly. Total issuance ran to DKK 7.3 billion in 2020, with the Danish government once more purchasing the bonds to fund subsidised housing. As the Danish state maintains a strategy of buying these bonds, upcoming maturing bonds are not subject to any refinancing risk for KommuneKredit.

To cover short-term liquidity requirements, we issued commercial papers (ECP) with maturities of less than 12 months in 2020, totalling DKK 14.5 billion.

In 2020, we issued securities totalling DKK 43.2 billion, and the total volume of issued securities amounted to DKK 199.8 billion.

Buybacks support active management of maturity profiles

As part of the efforts to optimise its balance sheet, KommuneKredit has a buyback strategy of actively managing the maturity profile of its balance sheet. This helps KommuneKredit to reduce the refinancing risk in connection with large funding redemptions.

In 2020, we made another USD issue with a concurrent buy back option. In total, KommuneKredit bought back bonds for USD 243 million in 2020.

Funding budget 2021

KommuneKredit budgets for a requirement for new funding of DKK 36 billion with a maturity of more than 12 months. This is a small increase on 2020, driven primarily by our strategy of accommodating upcoming funding redemptions. Consistent with our funding strategy, in 2021 we will continue to diversify bond issues across different markets and thereby optimise access to funding, while ensuring a broad and well-diversified investor base.

In 2021, KommuneKredit will remain active in the EUR, USD and DKK markets, expecting three to five public issues. At the same time, we expect our customers to continue to demand longer refinancing periods on their loans, and hence we will focus on issues with medium- or long-term maturities. We will continue to use private placements as a tool for meeting specific long-term maturity needs.

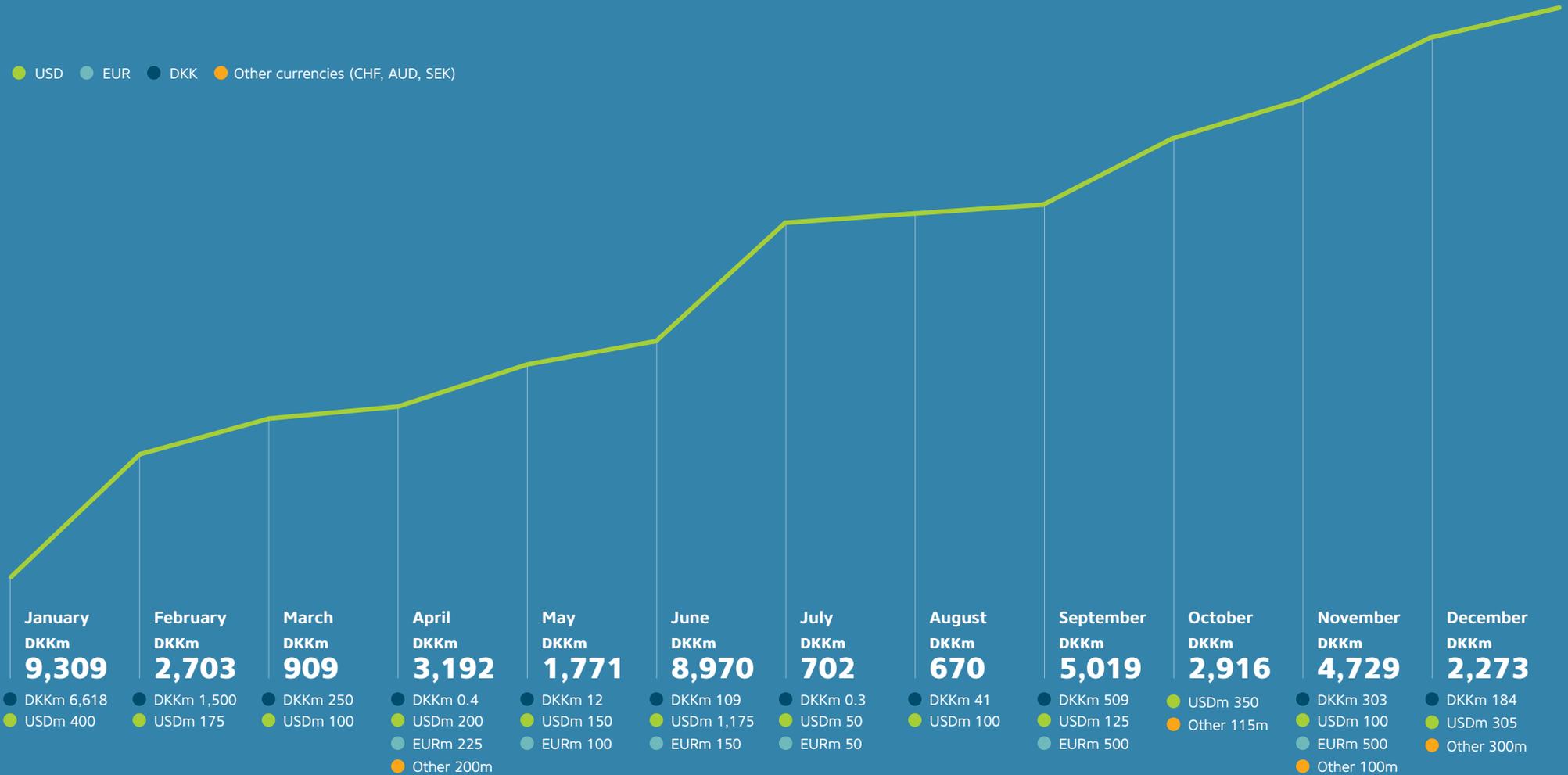
We expect once more to cover our short-term liquidity requirement in 2021 by issuing another round of commercial papers (ECP).

KommuneKredit has experienced persistently growing investor interest for green issues, and we expect to issue at least one new green bond in 2021, depending on activity in the underlying portfolio of green loans.

Bond issuance in 2020 by market per month

Total 2020 (DKK)
43,163 million

● USD ● EUR ● DKK ● Other currencies (CHF, AUD, SEK)



Stable investments and optimised total liquidity resources

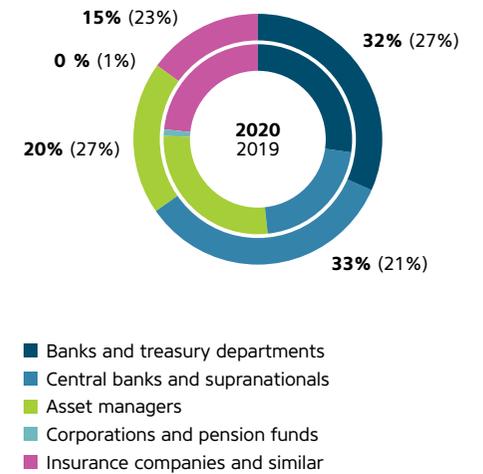
KommuneKredit is authorised by the supervisory authority to raise additional funding at a maximum of 25 pct. of total lending. Such funding contributes to KommuneKredit’s liquidity resources. The liquidity resources and KommuneKredit’s equity make up the total liquidity resources, which the association regularly invests in bonds with a very high credit quality.

The composition of our investments was adjusted slightly over the course of the year, although this did not result in substantial changes. As in previous years, in 2020 we invested the bulk of KommuneKredit’s

liquidity resources in AAA and AA-rated government bonds and mortgage bonds. We have diversified our investments across many different issuers, and generally in short maturities. 45 pct. of the portfolio will expire in 2021.

KommuneKredit regularly adjusts its total liquidity resources and, by extension, the investment portfolio. The objective is to adjust the total liquidity resources within applicable limits, while at the same time optimising returns and the balance sheet composition. The total liquidity resources fell from DKK 45 billion at the end of 2019 to DKK 34 billion at the end of 2020.

Investor distribution for benchmark issues





Press coverage from GridTECH
18 February 2020

Sharp increase in number of heat pumps this year

New figures from Dansk Fjernvarmes Projekt-selskab (DFP) show that there will be a sharp increase in the number of heat pumps in the district heating network this year. In fact, more pumps will be installed in 2020 than all other years put together going back to 2003.

More specifically, 46 new heat pumps are expected to be installed in the district heating network for a total effect of just under 300 MW during 2020. This will be more than twice the current number of 44.

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk

> CASE: HEAT PUMPS IN THE DISTRICT HEATING NETWORK



Heat pumps in the district heating network strengthen the green transition

The green transition is a social responsibility which the Danish district heating sector has embraced. The government's ambition of a low-emission society has become a benchmark for developing green heat production.

In KommuneKredit's Green Bond Committee, which assesses whether a specific loan can be categorised as green, we have in recent years witnessed a growing tendency for the district heating sector to invest in heat pumps. In these endeavours, they focus on green transition and the community.

Unlike ordinary heat pumps for private use, the large heat pumps in the district heating network are able to utilise many different – both large and small – heat sources. This makes them quite an essential component of the green transition. These types of heat pumps extract energy from wastewater, ground water, outside air, sea water, geothermal energy, and residual heat from flue gas while collecting excess heat from industry. The diversity of the heat sources ensures that the district heating runs at high efficiency and stable temperatures all year round.

District heating drives the green transition for the benefit of the community. The ever-greener heat production takes place

centrally and is immediately distributed to the district heating customers. In the long run, this will allow us to collectively reach our goals faster.

» *In order to support the green transition and the Danish parliament's ambition to turn Denmark into a low-emission society, we have to minimise the use of fossil fuels and bio fuels in the district heating network. The large heat pumps are among the best solutions available to meet this goal.*

Carl Hellmers
CEO, Fredericia Forsyning and external member of
KommuneKredit's Green Bond Committee

Loans approved by the Green Bond Committee as being green, may be funded using green bond issues. At KommuneKredit, we support our customers' green initiatives by collecting efficiency data which we report to the investors. In this way, we create an opportunity for investors who prioritise green investments to contribute to the transition of Danish society.

Transformation creates a KommuneKredit of the future

Driven by Strategy 2025, we aim to future-proof KommuneKredit as a well-run, accessible and sustainable financial company.

Development in six equally weighted strategic priorities

Guided by our vision, we have formulated six equally weighted strategic priorities that plot the direction of development which will secure our position in the market – also in the future.

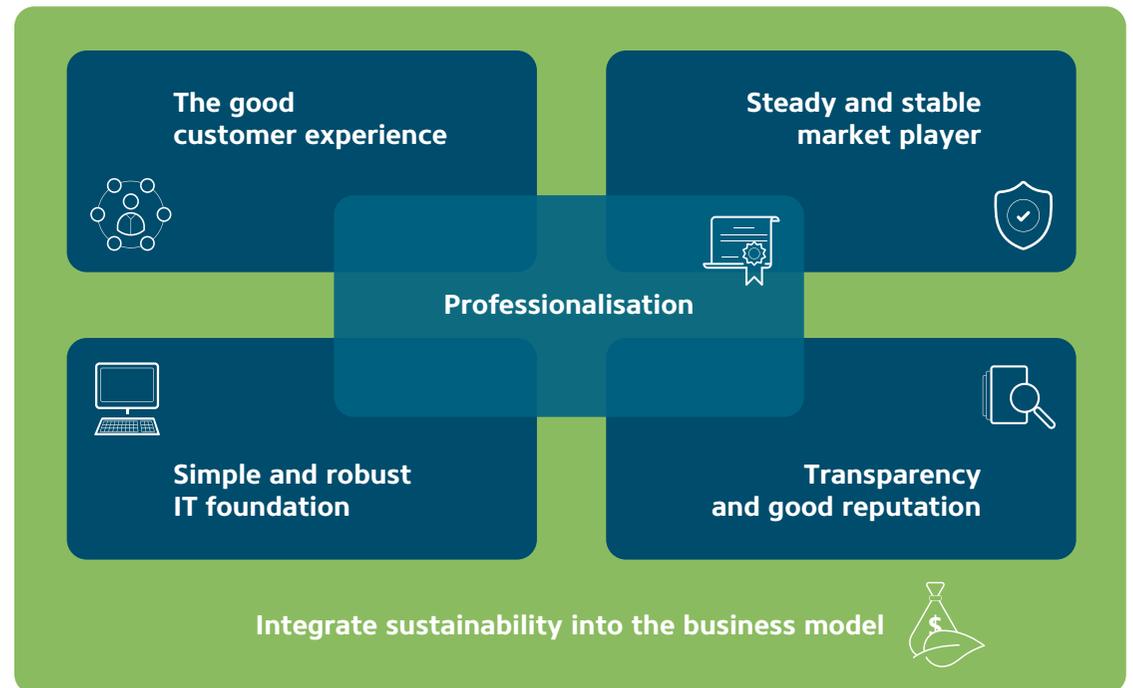
Four of the six strategic priorities are directly business-oriented: The good customer experience, Steady and stable market player, Simple and robust IT foundation, and Transparency and a solid reputation.

The strategic priority Integrate sustainability into our business model brings sustainability into focus throughout the organisation. Meanwhile, the priority Professionalisation, which concentrates on developing our employees, core values and culture, is a prerequisite for the strategy process to succeed.

📍 Strategy 2025

<https://www.kommunekredit.dk/en/about/strategy-2025-2/>

Six strategic priorities



Low risk, high level of security

KommuneKredit must always be a steady and stable link between the Danish local authorities and investors.

KommuneKredit is exposed to a number of risks which we regularly identify, control and mitigate so as to match KommuneKredit's low risk tolerance at any given time.

The Board of Directors has the overall responsibility for KommuneKredit's financial risk management, including risk tolerance decisions. The Ministry of Industry, Business and Financial Affairs, which is KommuneKredit's supervisory authority, is further authorised to order the Board of Directors to make changes to the guidelines it has adopted.

Low risk tolerance

KommuneKredit must be a steady and stable link between customers and investors and cannot pay dividends to our members. We therefore have a low risk tolerance which is limited to financial risks absolutely necessary in order to accomplish KommuneKredit's mission. As Danish local authorities are jointly and severally liable for KommuneKredit's liabilities, risks assumed by KommuneKredit are ultimately also their risks.

KommuneKredit sources funding denominated in different currencies, and these sources are relevant for projects

in Danish municipalities and regions. This means our role as a link is to schedule the funding to match the lending profile the customers want.

Low market risk

Using derivatives, KommuneKredit converts all funding into the required currency and interest profile for lending and our total liquidity resources.

KommuneKredit hedges interest rate and currency exposure in order to keep our market risk at a low level. The low market risk reduces the risk of loss resulting from changes in market prices.

Low credit risk

KommuneKredit is exposed to credit risk in respect of investment counterparties as the total liquidity resources are invested in bonds, and in respect of financial counterparties with whom we have entered into derivatives agreements. The credit risk related to investment counterparties is limited by high credit quality requirements – both in relation to the type of counterparty and the rating of the counterparty. The credit risk in respect of financial counterparties is also limited by high credit quality requirements. In addition, we can

only trade derivatives with financial counterparties with whom we have entered into a collateral agreement.

KommuneKredit grants lending or leasing only to Danish local authorities. Loans may also be granted against a 100 pct. guarantee from these authorities. Danish local authorities are subject to strict regulation and close supervision by the Ministry of the Interior and Housing. Our lending and leasing are characterised by the highest level of security. During our more than 120-year lifetime, we have never written off a loan or a lease.

Low liquidity risk

To limit liquidity risk, KommuneKredit cannot enter into binding commitments on lending liquidity unless at least corresponding equity or binding funding commitments are in place with at least corresponding terms to maturity. This ensures that KommuneKredit's lending is financed throughout the commitment period.

KommuneKredit's total liquidity resources consist of highly liquid bonds with a very high credit quality (HQLA).

The Board of Directors has determined that KommuneKredit must have total liquidity resources to cover a situation of extreme stress in the financial markets for an extended period of time. As a supplement to this, KommuneKredit has prepared a liquidity resource contingency plan which we can activate in case of pressure on liquidity.

Moreover, the Board of Directors has defined guidelines for KommuneKredit with respect to Liquidity Coverage Ratio and Net Stable Funding Ratio, which are calculated in accordance with the Capital Requirements Regulation (CRR/CRD IV).

The low liquidity risk ensures that KommuneKredit can at all times settle its financial obligations.

Price risk on own funding spreads

KommuneKredit’s funding spread is its funding costs relative to the variable market rate in DKK. In other words, the funding spread is the price of KommuneKredit’s funding in DKK. KommuneKredit is exposed to changes in own funding spreads. By maintaining relatively constant lending margins, we transfer changes to KommuneKredit’s own funding spreads to lending prices. Since loans, other than leasing, are also recognised at fair value, we reduce the price risk on our own funding spreads.

Total risk exposure amount (REA)

KommuneKredit’s total risk exposure amount has been calculated at DKK 11.5 billion. We calculate risk exposure in accordance with the solvency rules for credit institutions and use it in the determination of the capital ratio. Risk exposure derives from the following areas (note that risk exposure on lending carries a weight of 0):



Portfolio of securities

KommuneKredit’s risk exposure amount on its portfolio of securities totalled DKK 2.4 billion at the end of 2020. The portfolio of DKK 31 billion derives from bonds in the total liquidity resources.

The bonds are highly liquid bonds with a very high credit quality.



Derivatives

KommuneKredit’s credit exposure on derivatives concluded with financial counterparties totalled DKK 6.3 billion at the end of 2020. We use the derivatives to hedge market risk arising as a result of KommuneKredit’s role as link between the capital markets and the customers.

The risk exposure derives from a total principal against financial counterparties of DKK 439 billion. The financial counterparties are exclusively financial enterprises which the international rating agencies assess to be investment grade, i.e. BBB- or better, and we conclude all derivatives with financial counterparties under agreements on bilateral collateral.



Other risk exposure

Other risk exposure totals DKK 2.8 billion. Other risk exposure mainly consists of operational risk totalling DKK 0.5 billion and currency risk totalling DKK 2.2 billion.

Loss

**More than
120 years**

Without loss on lending or leasing

Risk weight

0%

There is a risk weight of 0 pct. when banks invest in KommuneKredit's bonds.

Total risk exposure amount (REA)

11.5 DKKbn

Calculated in accordance with the solvency requirements for financial institutions.

Community

98

municipalities

and five regions are liable for KommuneKredit's obligations.

The remainder of the risk arises primarily for two reasons. The first reason is that KommuneKredit's funding commitment is sometimes longer than the binding lending commitment. This is done, among other things, to mitigate liquidity exposure. The other reason is that KommuneKredit has total liquidity resources consisting of high-quality liquid assets (HQLA). The risk here arises because the fair value of funding is exposed to KommuneKredit's funding spreads, while that is not the case for the bonds in the total liquidity resources. The total liquidity resources consist primarily of bonds with a high rating issued by governments or public authorities and AAA-rated Danish mortgage bonds.

An increase in KommuneKredit's funding spreads would have a positive effect on fair values, because the fair value of KommuneKredit's funding falls more than the fair value of customer loans. A fall in KommuneKredit's funding spreads would have a negative impact on fair values. We endeavour to keep the risk on our own funding spreads at a low level, but the risk is a part of KommuneKredit's business model and cannot be avoided.

Price risk on lending margins

KommuneKredit maintains relatively constant lending margins, but we adjust them if our earnings requirement should change. We do this, among other things, to ensure adequate capital in the long term due to changed

lending growth or higher costs related to our total liquidity resources. Since we recognise loans, other than leasing, at fair value, any increase in the lending margin will result in a fair value loss on existing loans. This is because we calculate the fair value as the discounted value based on the current lending curve. However, as long as customers do not redeem their loans early, the fair value loss is temporary.

Operational risk

Most of KommuneKredit's activities are subject to operational risk. We register risk events to improve our business procedures and processes systematically and thereby reduce the number of risk events.

Our written business procedures describe allocation of responsibilities, segregation of duties, process management and business practices. We automate as many processes as possible to reduce the risk of human error. All critical processes, be they automated or manual, must be supported by either peer checks or objective controls.

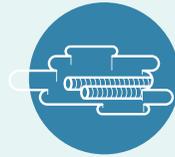
KommuneKredit is highly dependent on a well-functioning IT infrastructure. We place particular focus on this area via a disaster recovery plan and an IT security policy that sets guidelines for access control, assignment of roles and rights, system crashes and errors, etc.

Other risks

In addition to monitoring and managing the aforementioned financial and operational risks, we pay special attention to a number of risks in our operations and the development of KommuneKredit's business. These risks may cause KommuneKredit a material financial loss, lost or extended use of resources or loss of reputation.

	 Cyber attacks	 Hardware breakdown	 Critical business processes	 Internal fraud
What is the risk?	There is a constant risk of cyberattacks, and if our employees lack training or knowledge of how to protect the association against cyberattacks, the risk will increase significantly.	Wear or external factors such as power failure, water damage, lightning strikes, etc. create a risk that IT components such as servers or network equipment will fail or break down.	That critical business processes, including allocation of responsibilities and IT support, are not well-documented and therefore increase the risk of system failure and dependence on specific individuals.	Inadequate systems, allocation of responsibilities or processes may result in fraud against the association or its customers for personal financial gain.
What consequences could it have?	Inability to access our IT platform, to offer functionality to our customers or to protect customer and employee data.	IT systems are essential for running KommuneKredit's business. Without access to our IT infrastructure, we would not be able to run our business.	That the many different tasks handled by our association are not handled correctly and adequately within the expected time limit.	In addition to financial losses, internal fraud may result in a loss of reputation, which could ultimately affect KommuneKredit's ability to run its business.
What mitigating measures have been taken?	Technical security measures are regularly updated to respond to cyberattacks. All employees undergo training in how to respond to cyberattacks.	Systems are deployed in two separate data processing centres where data is mirrored and network traffic can be transmitted through different physical routes.	Processes are to the fullest extent possible supported by IT systems and/or peer checks. Working as a "second line of defence", an in-house operational risk function monitors that operational risk is adequately managed.	All processes involving valuables (money and securities) have embedded IT controls, peer checks and segregation of functions. A management inspection is completed annually, including an assessment of the adequacy of checks and controls.





Sewerage systems ensure healthier and greener local communities

The environment, climate, energy and health are focus areas in Ringsted Spildevand's sewerage projects, which include separate sewerage of urban areas, wastewater sewerage pipes for 108 homes located in open-country residential areas and sewerage systems for new urban areas.

When the people of Ringsted are connected to a separate sewerage system, they also gain a healthier and greener local community. Going forward, rainwater and wastewater will be separated, so that the rain water is channelled directly into the natural environment, while the wastewater is led to a treatment plant. This helps reduce the pressure on the sewers during heavy rainfalls, which in turn reduces the risk of flooding in the buildings connected to the system, on roads and of important infrastructure. Separate sewerage also ensures that diluted wastewater does not pollute our nature when heavy rainfalls cause wastewater to overflow into streams and lakes.

The system also eases the pressure on pipes and treatment plants, which will now be using fewer resources on a sudden increase in water volumes. Ringsted Spildevand will be installing, renovating and/or replacing more than 14,000 metres of piping. This will reduce the annual overflow of diluted wastewater by 3,000 m³ and reduce unwanted rain water to the treatment plants by 60,000 m³.

In addition, the extension of the sewerage system will continue both into new urban areas and into open countryside. In 2019, wastewater sewers were connected to 108 homes in open

country and connected to the public pipe system, and separate sewerage was established for more than 200 urban properties.

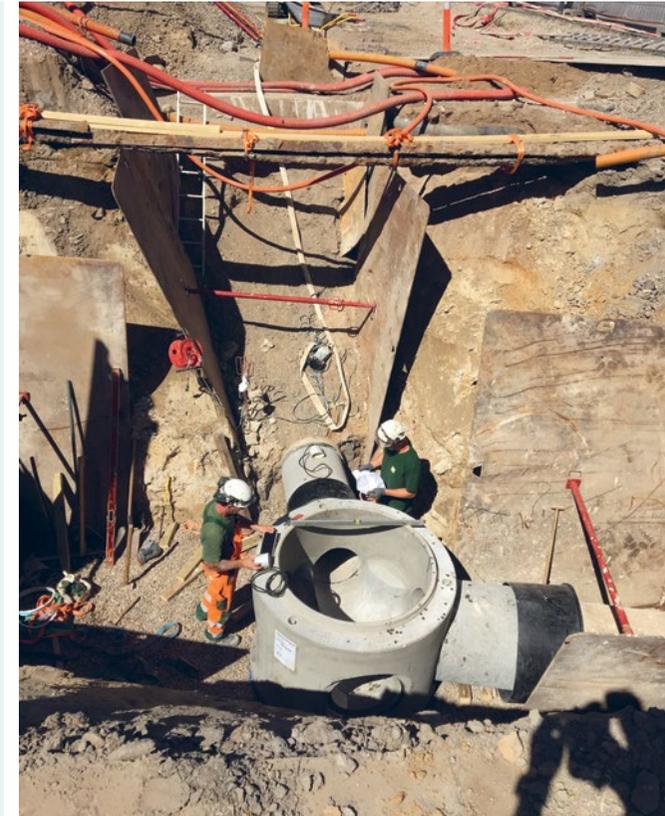
» *Creating, safeguarding and developing healthy climate and environmentally friendly surroundings for everyone is a social responsibility we all share. By establishing separate sewerage, we actively contribute to the common global agenda which the UN has defined through its 17 Sustainable Development Goals (SDG). We are working with goals number 6 (clean water and sanitation) and 11 (sustainable cities and communities).*

Janne Hansen
CEO, Ringsted Forsyning A/S

The projects are funded by KommuneKredit loans.

Many of KommuneKredit's borrowers make environment-friendly and sustainable investments that contribute to society's green transition. At KommuneKredit, we want to support the transition by attracting investors who prioritise green investments. Loans approved by the Green Bond Committee as being green may be funded using green bond issues.

» [Read more in our Green Bond Impact Report](https://www.kommunekredit.dk/en/green-bonds/green-bond-impact-report/)
<https://www.kommunekredit.dk/en/green-bonds/green-bond-impact-report/>



Facts

Borrower:	Ringsted Spildevand
Loan purpose:	Separate sewerage systems in urban areas and wastewater sewers in open country
Loan amount:	DKK 57,190,000
Construction period:	2019

Do you want to learn more?

Contact Christian Jeppesen, Director, Head of Lending and Leasing, chj@kommunekredit.dk

Satisfactory performance in a year of financial market instability

As was the case during the financial crisis, KommuneKredit's steady and stable business model showed its value during the unrest in the international financial markets, which this time around was triggered by the COVID-19 pandemic. Throughout 2020, KommuneKredit remained a safe haven for investors. Our ongoing rebalancing of lending and funding resulted in a need for a smaller liquidity portfolio, which, despite an increase in lending activity, resulted in a slight reduction in total assets.

Earnings and capital base

Net interest income amounted to DKK 440 million in 2020, which is satisfactory in relation to maintaining an equity ratio of more than 3%. Expectations for net interest income were around DKK 400 million.

In 2020, KommuneKredit adjusted its lending prices relative to expected funding costs. We generally kept lending margins at a relatively constant level. However, in connection with the COVID-19 pandemic Kom-

muneKredit experienced large funding cost fluctuations in the spring months. We opted to maintain a relatively stable lending price towards our customers, which resulted in large lending margin fluctuations. We have structured our business model to be able to grant loans in a period of up to one year without having to source new funding. During spring, when funding costs surged, we therefore opted to defer our sourcing of funding, and the temporary cost increase therefore had no impact on our customers or our financial results.

Administrative expenses amounted to DKK 130 million in 2020, marking a small increase on last year's DKK 126 million. Expenses for the year were somewhat below the expectations at the start of the year of DKK 150 million. The lower expenses are primarily ascribable to a timing difference in costs for KommuneKredit transformation programme, for which consulting fees have been lower than anticipated.

Outlook provided for 2020

	Annual report 2019	Interim report 2020*	Result in 2020
Net lending, DKKm	2,000	4,000	5,057
Net interest income, DKKm	400	400	440
Administrative expenses, DKKm	150	150	130
Profit before value adjustments and tax, DKKm	250	250	311
Equity ratio, pct.	3.5	3.5	3.6

* Outlook provided for result in 2020

Profit before value adjustments and tax totalled DKK 311 million. While this was DKK 58 million lower than in 2019, it was slightly above our expected level of DKK 250 million. At the end of 2020, value adjustments for the year amounted to DKK -33 million. The negative value adjustment was primarily due to a negative value adjustment of the securities portfolio driven by higher risk premiums in the financial markets.

Although KommuneKredit's low risk tolerance provides a high degree of symmetry between assets and liabilities, the value adjustment fluctuations in the spring period triggered by the financial market unrest were larger than the normal fluctuations of +/- DKK 500 million. Value adjustments in 2020 were triggered primarily by the price risk on own funding spreads. KommuneKredit's funding

spreads normalised during the second half of 2020, and value adjustments are back to the normal level.

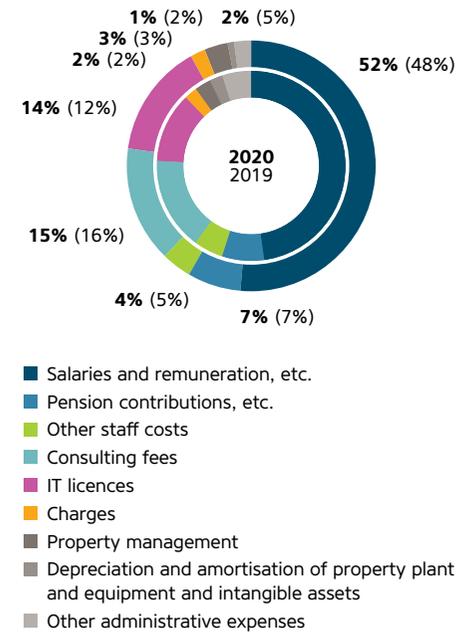
Comprehensive income for the year amounted to DKK 218 million compared with DKK 441 million in 2019. The decline was due primarily to a lower value adjustment in 2020. Comprehensive income for the year is transferred to equity, which now totals DKK 8,397 million. Equity consists in its entirety of retained earnings, which is Common Equity Tier 1 (CET1). According to the Board of Directors' targets, earnings should provide appropriate capitalisation, corresponding to an equity ratio of at least 3 pct. At year-end 2020, the equity ratio was 3.6 pct. and thus DKK 1.4 billion higher than the target defined by the Board of Directors.



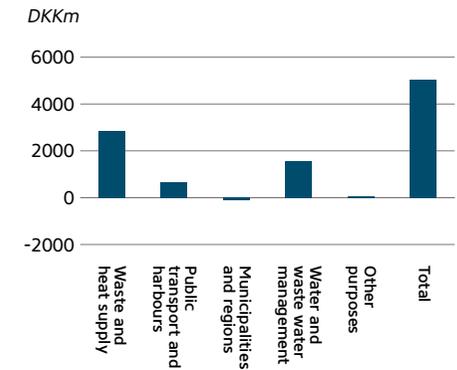
» *Total assets fell by a small margin because the need for a reduced investment portfolio more than offsets the higher level of lending activity.*

Morten Søjtofte
Director, CFO

Administrative expenses



Distribution of net lending



The total risk exposure amount (REA) fell to DKK 11.5 billion at year-end 2020 from DKK 11.9 billion at the end of 2019. The result is a capital ratio, which, calculated in accordance with the solvency rules for credit institutions, stands at 72 pct., against 67 pct. at year-end 2019.

Lending and leasing

Total lending incl. leasing rose by DKK 7.5 billion to DKK 192.5 billion. Of this increase, DKK 5.1 billion was net lending, which is new lending less repayment instalments and redemptions. The rest of the increase was primarily attributable to value adjustments because of generally lower market rates on loans.

As leasing was more or less unchanged, the positive net lending was driven by increased lending activity. The higher level of activity was primarily due to the agreements between the Danish government, Local Government Denmark (KL) and Danish Regions (Danske Regioner), which removed the capital expenditure cap for local governments. KommuneKredit has especially witnessed an increase in net lending to companies and institutions guaranteed by municipalities or regions.

Funding and investments

Total investments – due from credit institutions and the portfolio of securities – fell by DKK 11.4 billion to DKK 33.6 billion at year-end 2020. The decline was due to the fact that the funding maturity has become longer, which has resulted in a need for a smaller portfolio of liquid investments.

It also means that overall funding – due to credit institutions and debt securities issued – fell by DKK 6.4 billion relative to the end of 2019. The nominal value of the funding fell by DKK 10.2 billion, which is partly offset by higher value adjustments due to falling market rates. The majority of the outstanding funding is still in EUR, USD and DKK.

Total assets fell by a small margin because the need for a reduced investment portfolio more than offsets the higher level of lending.

Expectations of moderate balance sheet growth

On the basis of expected net lending of around DKK 4 billion, we expect another year of stable developments in 2021 with a low net interest income target of some DKK 400 million. We expect to maintain our equity ratio above 3%.

We do not expect the COVID-19 pandemic to have any impact on KommuneKredit in 2021. Developments in 2020 demonstrated that KommuneKredit's steady and stable business model was highly robust to financial market instability.

Developments in KommuneKredit's lending depend on the legislative framework for lending and the provision of guarantees and on customer decisions to take out a loan. The local government expenditure cap for 2021 has been raised by DKK 2.5 billion relative to the original limit for 2020, so we expect another year of strong lending activity in 2021.

Outlook for 2021

	Result in 2020	Outlook for 2021
Net lending, DKKm	5,057	4,000
Net interest income, DKKm	440	400
Administrative expenses, DKKm	130	160
Profit before value adjustments and tax, DKKm	311	240
Equity ratio, pct.	3.6	3.5

In 2020, there was a tendency of loans having longer refinancing intervals. On that basis, the maturity of KommuneKredit's funding has become longer, and we expect the requirement for funding with a maturity of more than 12 months to amount to roughly DKK 36 billion in 2021.

We expect KommuneKredit's net interest income to remain unaffected by any changed market conditions in 2021 because we keep our lending margins relatively constant. Irrespective of sentiment in the financial markets, steady and stable investments will be in demand. This allows for low funding expenses for KommuneKredit and, hence, low lending rates for our customers.

KommuneKredit expects net interest income in 2021 to the tune of DKK 400 million. Given an expected level of net lending of around DKK 4 billion, we consider this an appropriate level of net interest income to consistently ensure adequate capitalisation in the long term. Provided the COVID-19 pandemic eases its grip on society in 2021, we expect administrative expenses to be approximately DKK 160 million. However, this very much depends on the timing difference of costs related to the transfor-

mation programme. Barring any value adjustments, we expect a pre-tax profit of DKK 240 million.

KommuneKredit generally hedges its financial risks, with the exception of price risk on its own funding spread. Under normal circumstances, we expect value adjustments of financial instruments to amount to a maximum of +/- DKK 500 million.

In line with KommuneKredit's strategy, we will maintain the equity ratio at a minimum of 3 pct. of total assets. In the short term, value adjustments of assets and liabilities could temporarily make the equity ratio deviate from the target. If the equity ratio deviates significantly from the target over a longer period of time, we will adjust the lending margins in order to re-establish an equity ratio of at least 3 pct.

Forward-looking statements

The expectations stated in this annual report are inherently subject to uncertainties and may be affected by external factors. This may have the effect that actual developments and actual results may differ significantly from the expectations expressed in the annual report.

Responsible and efficient corporate governance

KommuneKredit is organised as an association, and we have defined corporate governance as responsible and efficient management that benefits members and investors alike.

Legal basis

KommuneKredit was established by way of Act no. 35 dated 19 March 1898, as replaced by Act no. 383 dated 3 May 2006 on the Credit Institution for Local and Regional Authorities in Denmark (lov om kreditforening af kommuner og regioner i Danmark). The Act and KommuneKredit's articles of association are available on www.kommunekredit.com.

Management structure

The distribution of responsibilities between the Board of Directors and the Management Board in KommuneKredit's principal activity areas is defined in a policy.

The Board of Directors is in charge of the overall and strategic management of KommuneKredit's business and affairs and must ensure a sound organisation of KommuneKredit's business. The Board of Directors makes decisions on KommuneKredit's risk tolerance and risk policy and on capital and liquidity targets. Once a year, the Board of Directors takes a position on the matters related to the Board's performance of its responsibilities.

The Management Board is in charge of the day-to-day management of KommuneKredit in accordance with the Act on KommuneKredit and KommuneKredit's articles of association, the policies and guidelines laid down by the Board of Directors and any other instructions by the Board and other applicable legislation.

The Board of Directors delegates authority to the Management Board. However, the Board of Directors may not delegate to the Management Board authority belonging to the overall management duties of the Board of Directors or of an unusual nature or of material significance for KommuneKredit.

Board of Directors

The Board of Directors consists of ten members. Six members are elected by the municipalities, two by the regions and two independent members are elected by the Board of Directors and have skills in accounting, auditing, finance or risk management

Board members are elected for a term of four years. Relative to the election terms applicable to regional and municipal councils, the election terms applicable to

the Board of Directors are staggered by five months. Election of members to KommuneKredit's Board of Directors was held in spring 2018 for the period from 1 June 2018 to 31 May 2022. However, the election term for one of the two independent board members is staggered relative to the other board members by two years.

The Board of Directors holds at least four ordinary board meetings a year, and its duties follow an annual calendar covering every significant business area. In 2020, the Board of Directors met in March, June, September and December. A quorum exists when at least half of the members of the Board of Directors are present and participate in a vote. Resolutions are passed by a simple majority of votes. The Management Board usually participates in board meetings but is not a part of the Board of Directors. The Board of Directors carries out an annual evaluation of its work and of the cooperation between the Board of Directors and the Management Board.



Board meeting Q2 2020

Focus: Strategy

- Management Board report on developments in KommuneKredit's business and the transformation programme
- Compliance reporting
- Distribution of responsibilities between Board of Directors and Management Board
- Annual cycle of business and rules of procedure

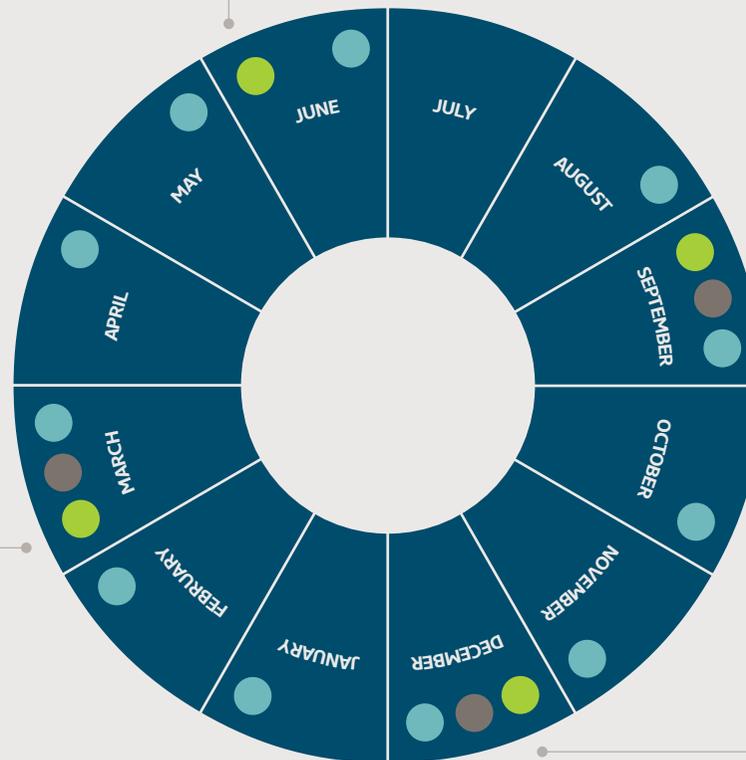
Board meeting Q1 2021

(after completion of audit committee meeting)

Focus: Annual report

- Annual report, long-form audit report
- CSR report
- Management Board report on developments in KommuneKredit's business and the transformation programme
- Long-term budget

- Board meeting
- Audit Committee meeting
- Management Board meets with the Chairman



Board meeting Q3 2020

(after completion of audit committee meeting)

Focus: Interim report

- Interim report and review long-form audit report
- Budget: Draft of level of administrative expenses
- Management Board report on developments in KommuneKredit's business and the transformation programme

Board seminar

- Audit of Strategy 2022

Board meeting Q4 2020

(after completion of audit committee meeting)

Focus: Risk management

- Long-form audit report in respect of the interim audit
- Management Board report on developments in KommuneKredit's business and the transformation programme
- Budget: Approval of cost budget
- Risk management policy
- Other policies
- Reporting on operational risk
- Synopsis for annual report
- Follow-up on board seminar in Q3 2020: Adoption of revised strategy

Audit Committee

In September 2020, The Board of Directors resolved to set up a small Audit Committee in accordance with the Danish Business Authority's guidelines on audit committees, whereas previously audit committee tasks were undertaken by the combined members of the Board of Directors. The Committee consists of the two independent board members, one of whom acts as chairman of the committee, and one additional board member. The Board of Directors has adopted the terms of reference for the Audit Committee's work. In 2020, three audit committee meetings were held – one in the new Audit Committee.

At least once a year, the Audit Committee meets with the independent auditors without the attendance of the

Corporate governance recommendations

While KommuneKredit is not directly encompassed by a corporate governance code, the association does, where relevant and within the provisions of the Act on KommuneKredit, apply the "Corporate governance recommendations" issued by the Danish Committee on Corporate Governance. The recommendations are available at the website of the Committee, <https://corporategovernance.dk/english/>. On the basis of the recommendations, KommuneKredit will issue its first report on corporate governance together with this annual report. The report is available on KommuneKredit's website <https://www.kommunekredit.dk/en/corporategovernance/>.

Management Board or any other employees of KommuneKredit.

Management Board

The CEO is in charge of the day-to-day management of KommuneKredit. The CEO must to the greatest extent possible perform his duties in cooperation with the other member of the Management Board as decisions regarding lending, lease agreements, financing, the use of financial instruments and investments require Management Board consensus. In case of disagreement on matters in these areas in the Management Board, the Board of Directors will take a final decision on the matter.

The Management Board informs the Board of Directors about all significant changes in KommuneKredit's affairs and reports on all important events of consequence for KommuneKredit's business. The Management Board provides the Board of Directors with accounting, financial and risk-related information to update the Board on KommuneKredit's development and allowing the Board to attend to its management duties. At every meeting of the Board of Directors, the Management Board reports on compliance with the Board of Directors' guidelines for financial and operational risk management.

Risk management and compliance

The Board of Directors has resolved that KommuneKredit must have an internal control environment, which to a relevant degree is in accordance with the Executive Order on Management and Control of Banks etc. This means KommuneKredit has strengthened its function for managing financial and operational risk and

Day-to-day management of KommuneKredit

Management Board

Jens Lundager, Chief Executive Officer and Managing Director
Henrik Andersen, Managing Director

Lending & Leasing

Christian Jeppesen
Director, Head of Department

Treasury

Jette Moldrup
Director, Head of Department

Risk & Balance

Jonas Toft Månsson
Director, Head of Department, CRO

Legal

Helene Vinten
General Counsel

Finance

Morten Sjøtofte
Director, CFO

IT

Nadeem Zafar
Director, Head of Department, CIO

Business Development & Strategy

Søren Steen Mortensen
Director, Head of Department

its compliance function. These are independent functions intended to provide a framework for governance and risk management at KommuneKredit that complies with norms and standards for a well-run financial company.

Heads of department and employees

Focus is on delegation of decision-making authority to the seven heads of department to the Heads of team within the respective departments and to the individual employees.

In 2020, KommuneKredit had an average of 82 full-time employees. KommuneKredit gives high priority to developing its employees' professional and personal qualifications so they meet external demands. High priority is also given to knowledge sharing and overlapping of work functions to maintain stability in operations.

Supervision

KommuneKredit is supervised by the Ministry of Industry, Business and Financial Affairs. The Ministry of Industry, Business and Financial Affairs has delegated the task of conducting the ongoing supervision pursuant to the Act on KommuneKredit to the Danish FSA. Pursuant to the Act on KommuneKredit, the supervisory authority must appoint an auditor. The ministry has appointed Thorkil Juul, former head of the National Social Appeals Board, as auditor, who is to oversee, among other things, that KommuneKredit's lending is in accordance with applicable rules on local government borrowing and the delimitation of KommuneKredit's customer group laid down in Danish legislation.

An agreement on segregation of duties has been signed by the auditor appointed by the ministry and the state-authorized public accountants appointed by the Board of Directors.

Remuneration

The Board of Directors has defined KommuneKredit's remuneration policy. The employees are not covered by collective agreement.

A bonus plan is in place, covering all employees with the exception of the Management Board. The Management Board distributes the combined bonus sum to departments based on the department's payroll and an assessment of efforts and performance during the year. Usually, the bonus for a full-time employee will be in the range between DKK 10,000 and the employee's monthly salary ex. pension.

Employee composition

KommuneKredit attaches importance to having a culture in which employees, regardless of gender, ethnicity and age, have equal opportunity to create a career.

KommuneKredit's ESG figures (environmental, social and governance data) are available in the appendix to

➤ [Responsibility Report](#)

<https://www.kommunekredit.dk/en/about/responsibility/responsibility-report/>

Gender composition

› Board of Directors



› Other Management (Management Board, Heads of Department, Heads of Team)



› Other employees

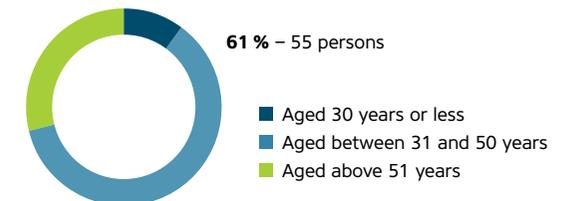


Age composition

› Average age for employees, year-end



29% – 26 persons 10% – 9 persons



Board of Directors



Lars Krarup, Chairman

Mayor

Municipality of Herning

Year of birth: 1972

Joined the Board of Directors:

1 January 2007

Will not be standing for re-election in 2022

Directorships:

Realdania

VIA University College

Team Danmark, (chairman)



Thomas Lykke Pedersen,
Vice Chairman

Mayor

Municipality of Fredensborg

Year of birth: 1962

Joined the Board of Directors:

1 June 2018

Up for election: 2022

Directorships:

Fredensborg Forsyning A/S

(vice chairman)

Nordsjællands Brandvæsen (chairman)

Espergærde Gymnasium og HF
(chairman)

Dansk Fjernvarmes Handelsselskab
(chairman)

Center for Boligsocial udvikling
(chairman)

Norfors I/S

HMN I/S

Gate 21



Martin Geertsen

**Regional Council Member
Capital Region**

Year of birth: 1970

Joined the Board of Directors:

1 June 2018

Up for election: 2022

Directorships:

Danish Regions

Greater Copenhagen & Skåne
Committee

Other fiduciary positions:

Member of parliament



Kaj V. Holm

**Deputy CEO of
Øresundsbro Konsortiet
Director of Finance at
Sund & Bælt Holding A/S**

Year of birth: 1955

Joined the Board of Directors:

1 June 2014

Up for election: 2022

Directorships:

Rønne Havn A/S



Mikael Klitgaard

Mayor

Municipality of Brønderslev

Year of birth: 1954

Joined the Board of Directors:

1 June 2014

Up for election: 2022

Directorships:

North Denmark EU Office

BRN (Business Region North
Denmark)

NBE (Netværk for Bæredygtig
Erhvervsudvikling)

Holtegaard Køreforening

NT (Nordjyllands Trafikselskab)

EUC Nord

Fonden "Godt gjort" tilknyttet AVV
(Affaldsselskabet Vendsyssel Vest)



Erik Lauritzen

**Mayor
Municipality of Sønderborg**

Year of birth: 1960

Joined the Board of Directors:

1 June 2018

Up for election: 2022

Directorships:

Valgbestyrelsen (chairman)

Project Zero Fonden

EUC Syd

Sct. Jørgens Hospital

Erhvervsakademiet

Erhvervshus Syd

Sønderborg Lufthavn

Lillebælt Vind

Sydtrafik



Leila Lindén

**Regional Council Member
Capital Region**

Year of birth: 1944

Joined the Board of Directors:

1 June 2018

Up for election: 2022



Erik Nielsen

**Member of the Municipal Council
Municipality of Rødovre**

Year of birth: 1953

Joined the Board of Directors:

1 June 2014

Will not be standing for re-election
in 2022



Hans Toft

**Mayor
Municipality of Gentofte**

Year of birth: 1947

Joined the Board of Directors:

1 January 1995

Will not be standing for re-election
in 2022

Directorships:

I/S Vestforbrænding (vice chairman)

Wonderful Copenhagen

Gentofte Idrætsfond (chairman)

Svenske Villa Fonden (chairman)

Other fiduciary positions:

Member of the Regional Council,
Capital Region of Denmark



Birgit Aagaard-Svendsen

Member of the Board of Directors

Year of birth: 1956

Joined the Board of Directors:

1 June 2020

Up for election: 2024

Directorships:

Seadrill Ltd

Copenhagen Malmö Port AB

Aker Solutions AS

Stiftelsen Det Norske Veritas og
relaterede selskaber

Prosafe SE

Grama Design Aps

Otto Mønsted A/S

West of England Ship Owners

Mutual Insurance ass.

Management Board

Jens Lundager

Chief Executive Officer, Managing Director

Year of birth: 1962

Joined the Management Board: 1 September 2015

Former positions:

2011-2015 Assistant Governor, Danmarks Nationalbank

2009-2011 Deputy Permanent Secretary, the Danish Ministry of Economic and Business Affairs

2000-2009 Head of Department, Danmarks Nationalbank

1997-2000 Counsellor (Financial), Royal Danish Embassy, Washington DC

1991-1997 Economist, Danmarks Nationalbank

1987-1991 Economist, Danish Ministry of Finance

Other fiduciary positions

2016- Chairman, Committee on Auditors (Revisorrådet)

Henrik Andersen

Managing Director

Year of birth: 1963

Joined the Management Board: 1 January 2018

Former positions:

2015-2017 Head of Group Treasury, Saxo Bank

2014-2015 Senior Vice President, Nykredit Realkredit A/S

2007-2014 Senior Vice President/Head of Treasury, Nykredit Bank A/S

1990-2007 Trainee, Economist, Head of Department, Nykredit A/S

From left to right:
Jens Lundager,
Chief Executive
Officer, Managing
Director, and Henrik
Andersen, Managing
Director





Financial statements 2020

Comprehensive income

DKKm	Note	2020	2019
Interest income	1.1	1,696	1,724
Interest expense	1.2	-1,256	-1,229
Net interest income		440	496
Other operating income		15	13
Other operating expenses		-14	-13
Administrative expenses	2.1, 2.2	-130	-126
Profit before value adjustments		311	369
Value adjustments of financial instruments	1.3, 1.4	-33	227
Profit before tax		278	596
Tax on profit for the year	3.1	-60	-148
Profit for the year		218	448
Other comprehensive income			
Actuarial gains and losses		0	-7
Tax on actuarial gains and losses	3.1	0	0
Comprehensive income for the year		218	441
Allocated as follows:			
Transferred to equity		218	441
Total		218	441

Balance sheet

DKKm	Note	2020	2019
Assets			
Due from credit institutions	1.4	22	5
Lending	1.4, 1.5	184,807	176,983
Leasing	1.6	7,650	7,982
Portfolio of securities	1.4, 1.7	33,568	44,982
Derivatives	1.4	7,670	6,610
Other assets		120	338
Current tax assets	3.2	35	35
Total assets		233,872	236,935
Liabilities and equity			
Liabilities			
Due to credit institutions	1.4	50	244
Debt securities issued	1.4, 1.8	212,728	218,932
Derivatives	1.4	11,722	8,327
Other liabilities		479	746
Current tax liabilities	3.2	23	31
Deferred tax liabilities	3.3	473	476
Total liabilities		225,475	228,756
Equity		8,397	8,179
Total liabilities and equity		233,872	236,935

Equity

DKKm	Note	2020	2019
Equity			
Equity at 1 January		8,179	7,738
Transferred to equity			
Profit for the year		218	448
Other comprehensive income			
Actuarial gains and losses		0	-7
Tax on other comprehensive income		0	0
Other comprehensive income after tax		0	-7
Transferred to equity in total		218	441
Equity at 31 December		8,397	8,179

The comprehensive income for the year is transferred to equity in accordance with the articles of association of KommuneKredit.

Equity increased to DKK 8,397 million at year-end 2020 from DKK 8,179 million at the end of 2019. At year-end 2020, equity amounted to 3.6 pct. of total assets, representing a small increase relative to year-end 2019. Equity consists in its entirety of transferred comprehensive income.

Under the legal framework applying to KommuneKredit, equity must equal at least 1.0 pct. of total liabilities, equal to DKK 2,255 million. The Board of Directors' target is for equity to amount to at least 3 pct. of assets, which is considered adequate to support KommuneKredit's activities.

Equity at 1 January and 31 December 2020 includes the DKK 2 million net revaluation reserve.

Cash flows

DKKm	Note	2020	2019
Profit before tax		278	596
Depreciation, amortisation and impairment		1	2
Total		279	599
Net interest income reversed		-440	-496
Financial income received		1,696	1,724
Financial expenses paid		-1,256	-1,229
Income tax paid		-71	-129
Increase in lending		-7,492	-7,511
Other assets		217	-218
Other liabilities		-267	88
Cash flows from operating activities		-7,613	-7,770
Acquisition, etc. of assets		-0	-1
Sale of property, plant and equipment		0	0
Change in securities		11,414	-2,038
Cash flows from investing activities		11,414	-2,039
Change in debt securities issued		-6,318	10,602
Derivative financial liabilities		3,395	-473
Derivative financial assets		-1,060	-554
Cash flows from financing activities		-3,983	9,575
Change in cash and cash equivalents		97	364
Deposits in credit institutions		5	2
Short-term payables to credit institutions		-80	-440
Cash and cash equivalents, 1 January		-75	-438
Deposits in credit institutions		22	5
Short-term payables to credit institutions		0	-80
Cash and cash equivalents, 31 December		22	-75

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General

Note 1.0 Accounting policies

General

The financial statements of KommuneKredit for 2020 have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

The financial year follows the calendar year. The functional currency is Danish kroner (DKK), and the annual report is presented in millions of Danish kroner (DKKm).

The concept of materiality has been applied in preparing the annual report. Certain items have been aggregated, and certain disclosures have been omitted because they are immaterial, individually and in the aggregate, to the annual report.

Unless otherwise indicated, all amounts in the annual report are stated in DKK millions. The stated totals have been calculated on the basis of actual amounts before rounding. As amounts are rounded to DKK millions, there may be minor differences between the sum of individual amounts and the stated totals.

Except for the changes described below, the accounting policies are unchanged from the policies applied in the annual report for 2019.

New and amended standards

There are no new or amended standards or interpretations effective for the financial year

2020 which are considered to have an effect on the financial reporting for 2020.

There are no new or amended IFRS standards entering into force and effective for the financial year 2021 or later which are considered to have an effect on the financial reporting for 2021.

Significant accounting estimates and judgments

In the preparation of the financial statements, management makes a number of accounting estimates and judgments. The estimates and judgments are made in accordance with the accounting policies based on assumptions that management finds reasonable and realistic but which are inherently uncertain and unpredictable. The accounting estimates and judgments are tested and assessed in an ongoing process to ensure that they reflect the historical experience and assessments of future conditions.

The accounting estimates and judgments that are deemed critical to the financial statements are where the calculation of fair value is based on input not directly observable in the market and where there are no opposite effect.

In particular, estimates and judgments with respect to the valuation of debt securities issued that are not a part of the bond circuit

may affect the financial statements. There is no active market for these securities, as a result of which significant accounting estimates are used in the valuation.

Estimates and judgments in the valuation of certain derivatives may also affect the financial statements, as there are no directly observable prices in the market. Observable input in generally accepted cash flow models is used instead.

In the valuation of loans which are not part of the bond circuit, there is no observable market, which means that KommuneKredit applies own current lending prices as market prices.

For all other financial instruments, valuation does not involve significant estimates. This is either because these instruments have quoted prices in an active market, or because there is no significant accounting impact of the estimates applied.

Note 1.4 describes the accounting estimates and judgments relating to the fair value measurement of financial instruments, including how changes to the reference rates will affect KommuneKredit's financials and operations and how KommuneKredit can ensure optimum implementation of the transition,

mitigate risk and incorporate changes to its contractual relations, etc.

Relative to information in the annual report for 2019, no changes were made to the accounting estimates.

Currency translation

The presentation currency used in the financial statements is Danish kroner (DKK). Items denominated in foreign currencies are translated at closing rates on the balance sheet date. Realised and unrealised exchange rate adjustments are recognised in the statement of comprehensive income.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to KommuneKredit.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from KommuneKredit and the value of the liability can be reliably measured.

Income is recognised in profit or loss as earned. Costs are recognised when incurred by KommuneKredit.

Financial assets and financial liabilities are recognised at the transaction date. Realised and unrealised value adjustments of financial

General

Note 1.0 Accounting policies (continued)

assets and financial liabilities to fair value using the fair value option over profit or loss are recognised in profit or loss under Value adjustments of financial instruments. Derecognition of both financial assets and financial liabilities is made on expiry or at the time of sale.

The fair value is measured on the basis of quoted market prices of financial instruments traded in active markets. If an active market exists, fair value is based on the most recently observed market price.

If the market for one or more financial assets or financial liabilities is illiquid, fair value is determined using generally accepted valuation methods.

Transaction costs and income are measured on initial recognition.

Offsetting

Positive and negative fair values of financial instruments are included in separate items in the balance sheet, and positive and negative values are set off only when KommuneKredit has the right and the intention to settle several financial instruments on a net basis.

Determination of the value of financial instruments using the fair value option

KommuneKredit has decided to use the fair value option under IFRS 9 to give the reader a transparent and easy-to-understand calculation of the balance sheet components.

Using the fair value option also helps ensure consistent accounting treatment of amounts due from credit institutions, lending, portfolio of securities, debt securities issued and derivatives in respect of risk-related items. This implies that lending, securities and derivatives are measured at fair value through profit or loss.

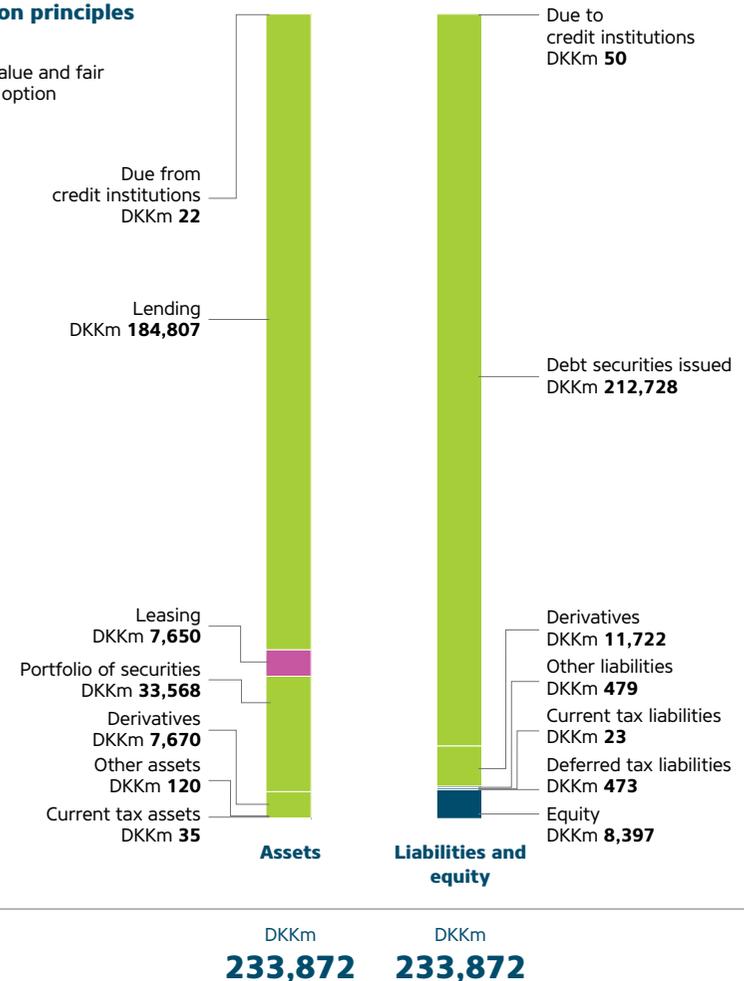
Overall, 96% of the balance sheet items are measured at fair value.

Further, the fair value option is applied because KommuneKredit's measurement of investment returns is based on fair values, and the relating disclosures to the Management Board and the Board of Directors are based on fair values.

To mitigate the operational risks associated with determination and manual handling of non-observable market data for purposes of

Valuation principles

- Fair value and fair value option
- Cost
- Other



General

Note 1.0 Accounting policies (continued)

fair value measurement of lending, debt securities issued and derivatives, KommuneKredit has internal controls and business procedures in place which ensure distribution of responsibilities, segregation of duties and process management. All critical manual processes are supported by objective controls or peer checks.

More details on quantification of the sensitivity which is, nevertheless, associated with the use of non-observable data are given in note 1.4 regarding the fair value of financial instruments.

Other assets

Other assets comprise properties, other non-current assets, VAT receivable and other receivables.

Other liabilities

Other liabilities comprise pre-invoiced income, salary items payable and creditors.

Pension obligations

KommuneKredit has entered into pension plans with the majority of its employees. Liabilities relating to defined contribution plans are recognised in the income statement in the period in which they are earned, and payments due are recognised in the balance sheet under other liabilities.

KommuneKredit has entered into defined benefit plans with a few former employees. For defined benefit plans, annual actuarial calculations are made of the net present value of future benefits to be paid under the plan. The net present value is calculated based on assumptions of the future developments of salary, interest, inflation and mortality rates, among other things. The net present value is only calculated for those benefits earned by the employees through their employment with KommuneKredit to date.

The calculations are based on the Danish Financial Supervisory Authority's benchmark

for mortality rates and longevity improvements Adjustments to the calculated net present value attributable to changes in actuarial assumptions are recognised in other comprehensive income. The yield curve is that which the Danish FSA instructs institutions to use in connection with measurement of insurance obligations and which is used in the budget agreement for municipal civil servants.

In 2019, KommuneKredit opted to pay the pension obligation to Sampension, and the obligation is therefore not recognised in the balance sheet. However, KommuneKredit still has the financial obligation for paying future benefits to former employees.

Segment information

The annual report of KommuneKredit does not disclose information about operating segments, as KommuneKredit has one reportable business segment only.

Core earnings and fair value adjustments, etc.

Note 1.1 Interest income and Note 1.2 Interest expense

Interest income and interest expense are accrued and recognised in the statement of comprehensive income. Interest income and interest expense comprise interest on financial instruments, leasing as well as administrative fees. Interest income and interest expense regarding financial instruments measured at fair value are presented under net interest income.

DKK ^m	2020	2019
Interest income		
Net financials at amortised cost		
Leasing	35	29
Net financials at fair value		
Fixed-term loans	1,297	1,148
Bond loans	361	382
Portfolio of securities	3	165
Total interest income	1,696	1,724
Interest expense		
Net financials at fair value		
Bond deposits	334	355
Other loans and derivatives	922	874
Total interest expense	1,256	1,229

Note 1.3 Value adjustments of financial instruments

Value adjustments comprise realised and unrealised value adjustments of financial instruments.

DKK ^m	2020	2019
Value adjustments of financial instruments		
Portfolio of securities	-120	-137
Lending	2,414	4,972
Impairment of leasing	0	0
Debt securities issued	-3,629	-4,798
Derivatives	1,302	190
Total value adjustments of financial instruments	-33	227

Fair value adjustments, etc.

Note 1.4.1 Specification of fair value of financial instruments

In accordance with IFRS 13, financial instruments measured at fair value must be classified in a fair value hierarchy ranging from level 1 to level 3, depending on how the fair values have been determined and the data on which they are based. The fair value is the amount for which a financial asset or a financial liability can be exchanged between knowledgeable, willing parties.

Fair value is measured on the basis of the following hierarchy:

Level 1: Quoted prices in an active market for identical assets or liabilities.

Level 2: Observable input based on quoted prices in an active market for similar assets or liabilities, or other valuation methods in which the valuation is based substantially on observable input.

Level 3: Non-observable input where the valuation is not based substantially on observable input.

The valuation of fair values in levels 2 and 3 is based on generally accepted models. KommuneKredit uses both A) listed prices for similar issues adjusted for liquidity, credit risk and conversion rights and B) discounted cash flow models, where all estimated and fixed cash flows are discounted using zero coupon interest curves, interest structure and options models.

A) KommuneKredit uses listed prices for similar issues adjusted for liquidity, credit risk and conversion rights on the part of debt securities issued and loans which is referred to as the bond circuit. The bond circuit is characterised by being based on the mortgage credit balance principle where the terms and conditions underlying the debt securities issued by KommuneKredit are passed on directly to the bond loan to the customer plus a margin determined by KommuneKredit.

All of these securities are issued on Nasdaq Copenhagen, but the bonds are illiquid as the frequency and volume of trading is insufficient. Consequently, the listed price cannot be used, and listed prices from similar issues adjusted for liquidity, credit risk and conversion

rights are used instead. Similar issues could be mortgage or government bonds with similar characteristics. As the credit risk on loans to customers corresponds to the issued debt securities, the price of the debt securities issued is also used for the bond loan. Price changes will thus not have any impact on the result.

B) KommuneKredit uses discounting of cash flows on derivatives, on loans raised at fair value and on the remaining part of the debt securities issued. These issued securities are also considered illiquid.

The calculation of fair value in level 2 includes observable input like swap rates, FX base swap spreads and exchange rates, etc. The valuation of debt securities issued also includes KommuneKredit's estimate of the actual funding expenses. The valuation of lending includes KommuneKredit's current lending prices. KommuneKredit aims to keep lending margins relatively constant by adjusting the actual lending prices on a regular basis against estimated, current funding expenses. The sensitivity associated with estimating actual funding expenses will thus be partly set off by changes in current lending prices. This means that the total value adjustment is considered to have a maximum net effect in the range of +/- DKK 250 million.

A small part of KommuneKredit's debt securities issued and derivatives is classified as fair value level 3. The level is used for structured notes and pertaining hedging derivatives for which input, in addition to input that applies to fair value level 2, also consists of non-observable input like volatility of currencies, shares and commodities and their correlation. The structured notes issued are micro-hedged by derivatives, and changes in the non-observable input will therefore not have any significant impact on the profit as changes in issuance will have an opposite effect on the derivative.

KommuneKredit pursues a risk management strategy of eliminating market risk by using financial instruments (see notes 1.9 -1.11). Consequently, the total net effect on the statement of comprehensive income and equity derived from changes in estimates and assumptions used to calculate the fair value under levels 2 and 3 is reduced to include changes in the funding expenses and lending prices.

Fair value adjustments, etc.

Note 1.4.1 Specification of fair value of financial instruments (continued)

The ongoing "Interest Rate Benchmark Reform" serves to replace the current "London Interbank Offered Rate" (LIBOR) with alternative risk-free rates. KommuneKredit does not use hedge accounting in its valuation process, but by using discounting of cash flows in fair value levels 2 and 3, KommuneKredit is to a limited extent exposed to changes in the affected benchmark rates, as a small proportion of KommuneKredit's derivatives are based on LIBOR.

KommuneKredit has set up a project group to handle the transition to the new benchmark rates and adheres to ISDA's protocol regarding fallback clauses. The layout of the final reform is still subject to some uncertainty, but as the vast majority of the affected cash flows are hedged, it is not expected to have any major impact on KommuneKredit's results.

No transfers between the levels were made in 2020.

Fair value adjustments, etc.

Note 1.4.1 Specification of fair value of financial instruments (continued)

DKKm	Level 1	Level 2	Level 3	Total
2020				
Assets				
Due from credit institutions	22	0	0	22
Lending	0	184,807	0	184,807
Portfolio of securities	33,568	0	0	33,568
Derivatives	0	6,854	816	7,670
Total assets	33,590	191,661	816	226,067
Liabilities				
Due to credit institutions	0	50	0	50
Debt securities issued	0	206,368	6,360	212,728
Derivatives	0	11,325	397	11,722
Total liabilities	0	217,743	6,757	224,500

DKKm	Level 1	Level 2	Level 3	Total
2019				
Assets				
Due from credit institutions	5	0	0	5
Lending	0	176,983	0	176,983
Portfolio of securities	43,014	1,968	0	44,982
Derivatives	0	5,796	814	6,610
Total assets	43,019	184,747	814	228,580
Liabilities				
Due to credit institutions	80	164	0	244
Debt securities issued	0	211,110	7,822	218,932
Derivatives	0	7,973	354	8,327
Total liabilities	80	219,247	8,176	227,503

Fair value adjustments, etc.

Note 1.4.2 Specification of level 3 fair value

DKKkm	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
2020					
Assets					
Due from credit institutions	0	0	0	0	0
Lending	0	0	0	0	0
Portfolio of securities	0	0	0	0	0
Derivatives	814	0	-11	13	816
Total assets	814	0	-11	13	816
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	7,822	0	-1,008	-454	6,360
Derivatives	354	0	-164	207	397
Total liabilities	8,176	0	-1,172	-247	6,757

DKKkm	1 Jan.	Additions	Disposals	Recognised in profit for the year	31 Dec.
2019					
Assets					
Due from credit institutions	0	0	0	0	0
Lending	0	0	0	0	0
Portfolio of securities	0	0	0	0	0
Derivatives	747	0	-14	81	814
Total assets	747	0	-14	81	814
Liabilities					
Due to credit institutions	0	0	0	0	0
Debt securities issued	8,601	0	-919	140	7,822
Derivatives	1,217	0	-858	-5	354
Total liabilities	9,818	0	-1,777	135	8,176

Fair value adjustments, etc.

Note 1.4.3 Change in credit spreads

The monetary effect caused by credit spreads on fair value adjustments on the statement of comprehensive income and balance sheet (equal to CVA/DVA on derivatives) is shown below. The calculations are based on a model based on the future positive and negative exposure adjusted for the probability of default and resulting losses. The calculations are based on market-based probabilities of default.

DKKm	2019	Change	2020
Statement of comprehensive income			
Value adjustments of financial instruments	-17	-10	-27
Total effect on statement of comprehensive income	-17	-10	-27
Balance sheet			
Assets	-37	-1	-38
Liabilities	-20	9	-11
Total effect on balance sheet	-17	10	-27

Note 1.4.4 Offsetting

KommuneKredit settles foreign exchange transactions and derivatives on a net basis when a master netting agreement (ISDA Master Agreement) includes an agreement on Cross-Transaction Payment Netting. The net settlement entails that the accounting values for derivatives contain offsetting in the balance sheet. Total offsetting amounted to DKK 4,965 million at 31 December 2020, against DKK 5,289 million at 31 December 2019.

In ISDA Master Agreements where no Cross-Transaction Payment Netting is included, the accounting values will not include offsetting. The netting value of derivatives not offset has been limited to the lesser of assets and liabilities calculated per counterparty. The amount is included in both assets and liabilities.

ISDA Master Agreements include unilateral or bilateral collateral agreements relating to derivatives. Collateral received and posted under these agreements solely includes bonds with a high credit rating. The amount of collateral is calculated per counterparty and has been limited to the net value of the financial instruments for which the bonds have been provided as collateral. The collateral agreements only allow offsetting in case of bankruptcy and not on a regular basis. No offsetting is applied for the value of the collateral.

KommuneKredit has not entered into any netting agreements and has not posted or received any collateral in relation to lending, leasing or debt securities issued. Accordingly, these financial instruments are not included in the table below. Carrying amounts appear from the balance sheet.

Derivatives presented in the balance sheet

DKKm	Values offset			Values not offset		
	Gross carrying amount	Set-off	Carrying amount	Financial instruments	Collateral	Net value
2020						
Assets	12,635	-4,965	7,670	-759	-5,386	1,525
Liabilities	16,687	-4,965	11,722	-759	-8,052	2,911
Net	-4,052	0	-4,052	0	2,666	-1,386
2019						
Assets	11,899	-5,289	6,610	-874	-4,069	1,667
Liabilities	13,616	-5,289	8,327	-874	-4,359	3,094
Net	-1,717	0	-1,717	0	290	-1,427

Fair value adjustments, etc.

Note 1.4.5 Specification of collateral

DKKm		Collateral posted		Collateral received	
Type of bond	Rating	Market value	Market value after haircut	Market value	Market value after haircut
2020					
Danish government bonds	AAA	0	0	0	0
Danish mortgage bonds	AAA	0	0	0	0
Danish mortgage bonds	AA+	0	0	330	324
German government bonds	AAA	0	0	157	154
British government bonds	AA	1,131	1,025	2,107	1,925
French government bonds	AA	7,403	7,128	3,318	3,083
Total		8,534	8,153	5,912	5,486
Of which non-nettable collateral		0	-101	0	-100
Total nettable collateral		8,534	8,052	5,912	5,386

DKKm		Collateral posted		Collateral received	
Type of bond	Rating	Market value	Market value after haircut	Market value	Market value after haircut
2019					
Danish government bonds	AAA	0	0	0	0
Danish mortgage bonds	AAA	0	0	102	100
Danish mortgage bonds	AA+	0	0	379	372
German government bonds	AAA	0	0	82	79
British government bonds	AA	954	848	2,238	2,109
French government bonds	AA	3,888	3,761	1,823	1,692
Total		4,842	4,609	4,624	4,352
Of which non-nettable collateral		0	-250	0	-283
Total nettable collateral		4,842	4,359	4,624	4,069

Reference is made to note 1.10.3 for a detailed description of requirements, etc.

Fair value adjustments, etc.

Note 1.5 Lending

Lending is measured at fair value through profit or loss. Leasing is measured at amortised cost, but is presented here for the sake of completeness.

DKKm	No. of loans	2020	2019
Lending			
1 January	18,681	184,965	177,454
Additions	3,434	43,507	36,745
Disposals	3,159	36,015	29,234
Total lending	18,956	192,457	184,965
Bond loans			
Bond loans	2,200	30,138	30,748
Fixed-term loans	5,266	154,669	146,235
Leasing	11,490	7,650	7,982
Total lending	18,956	192,457	184,965
Bond loans in nominal values			
Bond loans		30,138	30,748
Fair value adjustments		-2,132	-2,082
Bond loans in nominal values		28,006	28,667
Fixed-term loans in nominal values			
Fixed-term loans		154,669	146,235
Fair value adjustments		-11,923	-9,539
Fixed-term loans in nominal values		142,746	136,696
Leasing in nominal values			
Leasing		7,650	7,982
Impairment		2	2
Leasing in nominal values		7,652	7,984

Note 1.6 Unearned financial income relating to leasing

Leasing is not covered by the fair value option. KommuneKredit is the lessor of finance leases. Finance leases are recognised in the balance sheet as a receivable at an amount corresponding to the future minimum lease payment discounted at the interest rate implicit in the lease. On subsequent recognition, leasing is measured at amortised cost. The difference between the value on initial recognition and nominal value is accrued over the term to maturity and is recognised as “interest on leasing” under Interest income.

DKKm	2020	2019
Net investments in finance leases, by lease term		
Up to 1 year	1,177	1,416
From 1 to 5 years	3,262	3,640
Over 5 years	3,214	2,930
Total net leasing	7,653	7,986
Gross investments in finance leases, by lease term		
Up to 1 year	1,209	1,444
From 1 to 5 years	3,362	3,728
Over 5 years	3,403	3,104
Total gross leasing	7,974	8,276
Unearned financial income	321	291

Fair value adjustments, etc.

Note 1.7 Portfolio of securities

The portfolio of securities is measured at fair value through profit or loss.

DKK m	2020	2019
Portfolio of securities		
Government/public authorities	10,917	17,867
Multilateral counterparties	1,193	1,336
Mortgage credit institutions	21,458	25,419
Banks	0	360
Total portfolio of securities	33,568	44,982
Of this portfolio of securities used as collateral	4,811	3,486
Portfolio of unencumbered securities	28,757	41,496

Note 1.8 Debt securities issued

Debt securities issued are measured at fair value through profit or loss.

DKK m	1 Jan.	Additions	Disposals/ value adj.	31 Dec.	Value adjustment	Fair value 31 Dec.
2020						
Nasdaq Copenhagen	48,154	9,526	-8,622	49,058	3,796	52,853
ECP	0	14,550	-12,247	2,303	-1	2,303
Private Placements	23,619	612	-2,690	21,541	3,390	24,931
Uridashi	4,992	0	-2,488	2,504	-582	1,921
Benchmark	129,623	18,474	-27,402	120,695	5,748	126,444
Kangaroo	3,731	0	6	3,737	539	4,276
Total issued securities	210,118	43,163	-53,442	199,839	12,890	212,728
2019						
Nasdaq Copenhagen	38,910	13,595	-4,351	48,154	2,823	50,976
ECP	0	22,068	-22,068	0	0	0
Private Placements	26,866	0	-3,247	23,619	2,981	26,600
Uridashi	6,469	0	-1,478	4,992	-1,016	3,976
Benchmark	128,412	14,036	-12,824	129,623	3,672	133,295
Kangaroo	3,670	0	61	3,731	354	4,085
Total issued securities	204,327	49,699	-43,908	210,118	8,815	218,932

Financial risk management

General

Our function as a financial link between the capital markets and the local authorities in Denmark exposes KommuneKredit to financial risks. Through prudent risk management, it is ensured that KommuneKredit's risk profile matches the Board of Directors' low risk tolerance. The low risk tolerance means that KommuneKredit only assumes financial risks that are absolutely necessary to accomplish KommuneKredit's mission. KommuneKredit has established a finance committee which meets regularly to discuss relevant risk exposures like market risk and credit risk.

KommuneKredit distinguishes between the following types of financial risks:

- Market risk is the risk that market factor fluctuations will affect the value of a financial instrument. Market risk comprises currency risk, interest rate risk, volatility risk and other price risk.
- Credit risk is the risk of incurring a credit loss. Credit loss is defined both as the failure of a counterparty to honour its obligations towards KommuneKredit and as changes in market expectations to the ability of a counterparty to honour its obligations in general.
- Liquidity risk is the risk that KommuneKredit at any given time does not have and cannot source adequate liquid funds to cover its obligations and loan commitments given.

Note 1.9 Market risk

KommuneKredit limits market risk by using derivatives. The limited market risk mitigates the risk of loss resulting from changes in market factors.

KommuneKredit distinguishes between the following types of market risks:

- Currency risk is the risk that exchange rate fluctuations will affect the value of a financial instrument.
- Interest rate risk is the risk that interest rate fluctuations will affect the value of a financial instrument.
- Volatility risk is the risk that changes in volatilities on interest rates, currencies, share indices, commodity prices or similar factors will affect the value of a financial instrument.
- Other price risk is the risk that changes in market factors other than those attributable to interest rate, currency and volatility fluctuations will affect the value of a financial instrument. This includes exposures to e.g. commodity indices, equity indices and exposure to KommuneKredit's own funding spreads.

Financial risk management

Note 1.9.1 Currency risk

Policies and procedures

KommuneKredit's risk tolerance in respect of currency risk is very limited, as it is most often not necessary to accept such risk to accomplish KommuneKredit's mission.

Currency risk is managed either by hedging funding in foreign currency using derivatives or by investing the total liquidity resources in the same currency as the funding. In this way, KommuneKredit minimises its currency position. In the principal funding currencies such as EUR and USD, KommuneKredit on a smaller scale assumes currency risk in the form of unrealised gains and losses.

According to the guidelines, the net position calculated as the present value of future payments in EUR must not exceed DKK 1,000 million, and the net position for all other currencies combined must not exceed DKK 100 million.

Measurement

The currency position is presented separately for receivables and liabilities as well as derivatives where the position is calculated using values based on the same discount curve. The distribution shows how the derivatives are used to hedge the resulting currency position from receivables and liabilities.

At the end of 2020, KommuneKredit's currency position was DKK 28 million in EUR, DKK -6 million in USD and DKK 1 million in CHF, while all other currency exposures were DKK 0 million.

Financial risk management

Note 1.9.1 Currency risk (continued)

Currency risk

DKKm		Assets	Liabilities	Derivatives	Currency position
2020					
Australian dollar	AUD	0	7,927	7,927	0
Brazilian real	BRL	0	529	529	0
Swiss franc	CHF	160	6,983	6,824	1
Euro	EUR	8,195	93,988	85,821	28
Pound sterling	GBP	0	2,973	2,973	0
Japanese yen	JPY	0	1,373	1,373	0
Mexican peso	MXN	0	1,057	1,057	0
Norwegian kroner	NOK	0	2,481	2,481	0
Swedish kroner	SEK	0	3,854	3,854	0
US dollar	USD	2,087	40,261	38,168	-6
Other currencies*		0	526	526	0
Total		10,442	161,952	151,533	23

* Other currencies comprise CAD, INR, NZD, TRY, ZAR.

Currency risk

DKKm		Assets	Liabilities	Derivatives	Currency position
2019					
Australian dollar	AUD	138	7,792	7,654	0
Brazilian real	BRL	0	1,043	1,043	0
Swiss franc	CHF	306	7,160	6,854	0
Euro	EUR	12,281	90,066	77,758	-27
Pound sterling	GBP	0	3,145	3,145	0
Japanese yen	JPY	0	2,074	2,074	0
Mexican peso	MXN	0	1,238	1,238	0
Norwegian kroner	NOK	0	4,130	4,130	0
Swedish kroner	SEK	0	3,206	3,206	0
US dollar	USD	7,965	48,189	40,226	3
Other currencies*		0	1,759	1,759	0
Total		20,690	169,802	149,087	-24

* Other currencies comprise CAD, HKD, INR, NZD, TRY, ZAR.

Financial risk management

Note 1.9.2 Interest rate risk

Policies and procedures

KommuneKredit's risk tolerance in respect of interest rate risks is limited, but it is deemed necessary to accept certain interest rate risks to accomplish KommuneKredit's mission.

KommuneKredit primarily accepts interest rate risks when the total liquidity resources are invested in bonds.

The interest rate risk is managed by hedging lending, funding and investments with a fixed rate of interest of a certain size one-to-one using derivatives. The remaining interest rate risk is also managed using derivatives with hedging at portfolio level.

According to the guidelines, the interest rate risk must not exceed 4.5 pct. of equity, corresponding to DKK 378 million. The interest rate risk is calculated using a 1 percentage point parallel shift in the yield curve.

DKKm	2020	2019
Total interest rate risk	230	180
Equity used for limit	8,397	8,179
Interest rate risk limit of 4.5 pct. of equity	378	368
Utilisation of the limit as a percentage	61	49

Note 1.9.3 Volatility risk

Policies and procedures

KommuneKredit's risk tolerance in respect of volatility risk is very low, as it is not necessary to accept volatility risk to accomplish KommuneKredit's mission.

KommuneKredit may to very limited extent assume volatility risk in the form of interest rate volatility risk. Interest rate volatility risks arise when KommuneKredit invests in callable bonds or bonds with a cap or floor.

According to the Board of Directors' guidelines, the interest rate volatility risk must not exceed 0.2 pct. of equity, corresponding to DKK 17 million. The interest rate volatility risk is calculated based on a 1 percentage point shift in the interest rate volatility. At the end of 2020, there was only limited interest rate volatility risk.

Note 1.9.4 Other price risk

Policies and procedures

KommuneKredit is exposed to risk associated with changes to its own funding spreads. By maintaining relatively constant lending margins, we transfer changes to KommuneKredit's own funding spreads to lending prices. As the funding is larger and has longer maturities than the binding loan commitments, part of the effect of changed funding spreads will not be passed on to lending prices. The risk on own funding spreads is a part of KommuneKredit's business model and will therefore be necessary in order to accomplish KommuneKredit's mission, but efforts are made to keep it low.

The risk associated with KommuneKredit's own funding spreads is measured and reported on a continuing basis.

KommuneKredit's risk tolerance in respect of other price risk than the risk of changes to its own funding spreads is very low.

Other price risk than the risk of changes to KommuneKredit's own funding spreads may arise when KommuneKredit issues bonds related to inflation indices or the like. According to the Board of Directors' guidelines, such other price risks must be hedged at the issue date.

Financial risk management

Note 1.10 Credit risk

Policies and procedures

KommuneKredit is exposed to credit risk in connection with investing in bonds for the total liquidity resources and when entering into derivatives which reduce the market risk. Moreover, credit risk attaches to lending and leasing to the municipal and regional sector in Denmark.

Lending and leasing are only granted to Danish local authorities or against a 100% guarantee from these authorities. In this section, recipients of lending and leasing will be referred to as customers. Derivatives with customers are hedged in the same way as for lending and leasing. Investment counterparties and counterparties with respect to derivatives, who are not customers, will be referred to as counterparties.

Due to the special credit quality of its customers, KommuneKredit assesses that there is very limited credit risk associated with lending, lease agreements and derivatives with customers. However, in accordance with IFRS 9, credit risk must be calculated on leases which are recognised at cost. The credit risk on leases has been calculated at DKK 2 million. KommuneKredit has a Grants Committee, whose duties include approving loans for more than DKK 300 million or where a loan otherwise deviates from standard practice. Credit events such as a request for forbearance are also considered by the Grants Committee. KommuneKredit has never recorded a loss on a loan.

Credit risk on lending, leasing and derivatives with customers

DKKm	Carrying amount	Credit risk
2020		
Danish municipalities and regions	102,016	2
Institutions guaranteed by Danish municipalities and regions	91,297	0
Total	193,313	2
2019		
Danish municipalities and regions	105,473	2
Institutions guaranteed by Danish municipalities and regions	80,542	0
Total	186,015	2

In order to reduce the credit risk, KommuneKredit can only enter into financial instruments with counterparties with whom a bilateral collateral agreement has been concluded. According to the guidelines on the posting of collateral, such agreements must meet the following requirements as a minimum:

- Daily exchange of collateral and low threshold values.
- Collateral received under the agreements must be high-quality liquid bonds.

In order to further reduce the credit risk on counterparties, the credit risk guidelines include strict requirements as to the credit quality, both in relation to the type of counterparty and the rating of the counterparty by credit rating agencies. As a result, financial instruments may only be entered into with the following types of counterparties:

- Central governments, regions, municipalities and other public authorities.
- Multilateral development banks and international organisations.
- Banks, other financial institutions and issuers of covered bonds.

Counterparties must either be resident in a country that has been granted the lowest risk classification in the OECD's Country Risk Classification or in a country that has not been audited or classified for these purposes, but is audited as a high-income OECD or Eurozone country.

In addition, counterparties must have a rating of at least Aa3/AA- from Moody's Investors Services or Standard & Poor's or a similar rating from Fitch Ratings. If a collateral agreement has been entered into with the counterparty, ratings down to A- are accepted. Finally, agreements with lower-rated, systemically important Danish banks are permitted.

According to the Board of Directors' guidelines, counterparties satisfying these requirements may be granted a credit risk line by the Management Board.

Expected credit risk losses are recognised in the statement of comprehensive income on an ongoing basis.

Financial risk management

Note 1.10 Credit risk (continued)

KommuneKredit sets limits for the concentration of credit risks based on large exposures in EU regulation on prudential requirements for credit institutions and investment firms. According to this regulation, exposures to a single customer or a group of connected customers, net of fully and completely secured exposures, cannot exceed 25% of the base capital, which for KommuneKredit's purposes substantially corresponds to equity. The Management Board has also defined limits for the maximum portfolio of securities issued by a specific issuer.

The concentration of credit risk by rating, counterparty type, geographical area and instrument type is shown in 1.10.2.

Note 1.10.1 Credit risk measurement

Measurement

Credit risks on counterparties can be broken down into two main components. The first component is the credit risk associated with amounts due from credit institutions and securities, collectively called investment credit risk. This derives from investments made using means from the total liquidity resources. The other component is the credit risk associated with derivatives and related collateral, collectively called credit risk on derivatives. This derives from the hedging of, primarily, interest rate risk and currency risk.

The credit risk on both components is limited due to the high rating requirements and requirement for collateral agreements when trading in derivatives.

Exposures associated with credit risk decreased by DKK 11.4 billion from DKK 45.6 billion in 2019 to DKK 34.2 billion in 2020. The decrease was exclusively due to a lower exposure on investments. The reduced credit risk is the result of KommuneKredit's balance sheet optimisation efforts in 2020.

The credit quality of investments remains very high with 99 pct. of the exposure being placed in securities rated AA- or higher. Most of the investment portfolio consists of Danish mortgage bonds, French government bonds and other highly rated institutions and multilateral development banks.

The exposure on derivatives after collateral has increased marginally. The exposure before collateral increased by DKK 1.4 billion, while the collateral after haircut increased by DKK 1.3 billion. At the end of 2020, 89 pct. of the fair value of the derivatives portfolio was covered by collateral received.

The rating is based on Moody's Investors Service, Standard & Poor's and/or Fitch Ratings. If the counterparty is rated by two rating agencies, the lowest rating will be applied. If the counterparty is rated by three credit rating agencies, the middle rating of the three credit ratings is used. When investing in securities, the rating of the securities is used if it exists – otherwise the issuer's rating is used. If the security is covered by a guarantee, the rating of the guarantor is used.

Any collateral received that exceeds the fair value of derivatives at counterparty level is not included in the credit risk-reducing collateral. In respect of counterparties posting collateral for their liabilities vis-a-vis KommuneKredit, the collateral is classified based on the rating of the counterparty. Thus, the classification does not reflect the rating of the collateral. The credit risk-reducing element of the collateral equals the value of the nettable collateral in note 1.4.5.

As the credit risk made up as fair value at counterparty level cannot be negative, an adjustment in this respect has been made in the column "Correction for neg. FV per counterparty".

Financial risk management

Note 1.10.1 Credit risk measurement (continued)

DKK M	Investment credit risk			Credit risk on derivatives				Total	
Rating	Due from credit institutions	Securities	Total	Derivatives		Correction for neg. FV per counterparty	Collateral after haircut	Total	Net
				Positive	Negative				
2020									
AAA	0	18,011	18,011	0	0	0	0	0	18,011
AA+	0	7,897	7,897	160	0	0	-154	6	7,903
AA	0	7,660	7,660	613	-382	223	-394	60	7,720
AA-	1	0	1	5,878	-7,126	3,731	-2,036	447	448
A+	3	0	3	2,185	-788	361	-1,641	117	120
A	18	0	18	1,397	-7,866	6,633	-152	12	30
A-	0	0	0	655	-228	0	-423	4	4
BBB+	0	0	0	870	-278	0	-585	7	7
Total	22	33,568	33,590	11,758	-16,668	10,948	-5,385	653	34,243
2019									
AAA	0	29,611	29,611	0	0	0	0	0	29,611
AA+	0	6,589	6,589	0	0	0	0	0	6,589
AA	0	7,691	7,691	256	-90	0	-95	71	7,762
AA-	0	1,091	1,091	4,363	-5,636	2,471	-894	304	1,395
A+	3	0	3	1,918	-1,575	914	-1,042	215	218
A	2	0	2	1,523	-5,361	3,902	-64	0	2
A-	0	0	0	1,973	-636	163	-1,488	12	12
BBB+	0	0	0	796	-295	0	-486	15	15
Total	5	44,982	44,987	10,829	-13,593	7,450	-4,069	617	45,604

Financial risk management

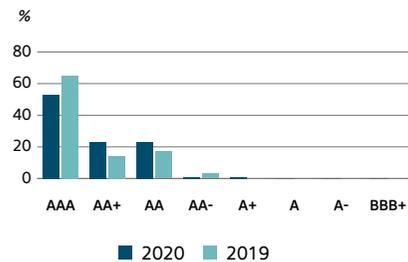
Note 1.10.2 Credit quality

KommuneKredit has never incurred losses on loans or leases because its clients are exclusively Danish municipalities and regions and companies and institutions guaranteed by these bodies. At the end of the year, KommuneKredit had no overdue receivables.

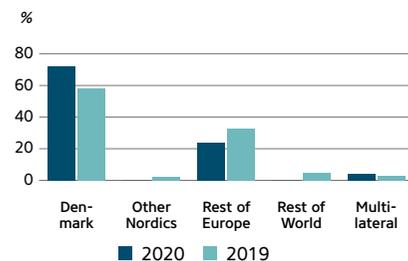
53 pct. of the total exposure relates to counterparties with the highest rating, 46 pct. has a rating between AA+ and AA-, and less than 1 pct. has a lower credit rating. The credit quality of KommuneKredit's counterparties is thus very high.

In addition to a general fall in investments, KommuneKredit's balance sheet optimisation efforts have had the effect that a higher proportion of investments at end-2020 was placed

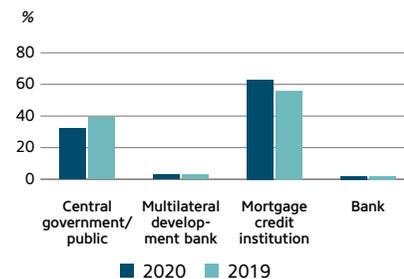
Exposure by rating



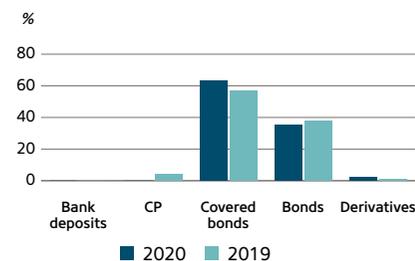
Exposure by geographical area



Exposure by type of counterparty



Exposure by type of instrument



in Danish mortgage bonds rather than in bonds issued by governments or other public authorities. Compared with 2019, a larger proportion of the investments in Danish mortgage bonds at the end of 2020 was placed in AA+ rated bonds rather than in AAA rated bonds. This resulted in a shift in rating exposure from AAA to AA+ of 12 percentage points.

Note 1.10.3 Collateral received

All KommuneKredit's collateral agreements have been concluded as annexes (Credit Support Annexes) to ISDA Master Agreements. In order to ensure maximum credit risk reduction, low threshold values have been agreed as well as daily valuations and exchange of collateral.

When collateral is posted, a haircut (deduction) is calculated in respect of the collateral, depending on instrument, rating and term to maturity. This haircut is a buffer protecting the parties against fluctuations in the market value in case the collateral is to be realised.

2,803 transfers of collateral totalling DKK 91 billion in nominal value were made in 2020. This high level of activity is a reflection of the low threshold values and the daily exchange, which ensures that collateral is posted on a regular basis for as large a part of the credit risk as possible.

To further reduce the credit risk, the collateral agreements also include strict requirements as to the quality of the collateral posted. Under the collateral agreements, collateral must be highly rated mortgage credit bonds or government bonds issued by countries with a high rating. As indicated in note 1.4.5, 94 pct. of the collateral received at year-end 2020 was thus British, French or German government bonds. The remaining 6 pct. was Danish mortgage credit bonds with the highest or second-highest credit quality. Thus, all collateral received is high-quality liquid bonds.

A minor share of the collateral received exceeds the net value of the derivatives at counterparty level. Accordingly, these are not included as credit risk-reducing collateral.

Financial risk management

Note 1.11 Liquidity risk

Policies and procedures

Even if KommuneKredit's risk tolerance in respect of liquidity risks is very low, such risks cannot be avoided. The Management Board meets regularly with the other members of the Finance Committee to discuss liquidity risk.

The overall principle for liquidity risk mitigation is based on a maturity match between the commitment period for funding and lending. As a consequence of the liquidity limit, binding lending commitments cannot be entered into unless at least corresponding binding funding commitments are in place with at least corresponding terms to maturity. Equity may be used for funding purposes.

According to the liquidity guidelines, the total holding of high-quality, unrestricted liquid assets (HQLA) must exceed the accumulated liquidity outflows in a 30-day stress scenario. This is achieved by keeping the Liquidity Coverage Ratio (LCR) constantly above 110 pct. Furthermore, the stable medium-term and long-term funding, i.e. more than one year, must exceed the liquidity requirements in a stress scenario. This is achieved by a Net Stable Funding Ratio (NSFR) constantly above 110 pct. LCR and NSFR are based on the Liquidity Coverage Ratio and Net Stable Funding Ratio of the Capital Requirement Regulation. At year-end 2020, LCR was 198 pct., and NSFR was 152 pct.

The guidelines also define a requirement on diversification of funding on sources, currencies and maturities, including requirements on diversification of funding redemptions, to ensure the best possible access to new funding.

To ensure that the bonds in the total liquidity resources are liquid, it is required that most of the bonds are HQLA bonds and categorised as eligible collateral with either Danmarks Nationalbank or the ECB. At year-end 2020, 98 pct. of all bonds were classified as HQLA, and 97 pct. were categorised as eligible collateral with either Danmarks Nationalbank or the ECB.

The Board of Directors has determined a minimum 180 day requirement for the survival horizon in a going concern stress scenario. At year-end 2020, the survival horizon was 320 days. The stress scenario is based on assumptions that there is no access to the funding markets, that KommuneKredit continues new lending and that the markets are developing unfavourably for KommuneKredit in relation to investments and collateral for derivatives. Loans subject to renegotiation, for which the binding liquidity commitment is shorter than the term to maturity of the loan, are in the scenario considered as non-terminable.

The survival horizon is supplemented by additional stress scenarios for short-term liquidity, and KommuneKredit has a liquidity resource contingency plan which can be activated in case of pressure on liquidity.

Financial risk management

Note 1.11.1 Distribution of maturity

The distribution of maturity is shown in nominal value, excl. interest, according to term to maturity or the liquidity binding period where this is shorter. Loan commitments with known disbursement dates are recognised on the basis of the current date, while loan commitments for which dates and amounts are unknown are recognised on the basis of the term to maturity for the credit lines in question.

DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2020					
Financial assets					
Due from credit institutions	22	0	0	0	22
Portfolio of securities	9,773	5,329	18,057	0	33,159
Lending	32,852	20,953	43,638	73,612	171,055
Leasing	120	1,057	3,262	3,214	7,653
Total recognised financial assets	42,767	27,339	64,957	76,826	211,889
Funding commitments received	0	0	0	0	0
Total financial assets	42,767	27,339	64,957	76,826	211,889
Financial liabilities					
Due to credit institutions	0	50	0	0	50
Debt securities issued	9,574	12,227	93,887	84,151	199,839
Derivatives	403	768	1,270	-341	2,100
Total recognised financial liabilities	9,977	13,045	95,157	83,810	201,989
Loan commitments given	2,403	4,503	2,971	0	9,877
Total financial liabilities	12,380	17,548	98,128	83,810	211,866

DKKm	0-3 months	3-12 months	1-5 years	Over 5 years	Total
2019					
Financial assets					
Due from credit institutions	5	0	0	0	5
Portfolio of securities	9,332	14,704	18,605	0	42,641
Lending	46,186	21,681	33,894	63,599	165,360
Leasing	200	1,214	3,639	2,930	7,983
Total recognised financial assets	55,723	37,599	56,138	66,529	215,989
Funding commitments received	0	0	0	0	0
Total financial assets	55,723	37,599	56,138	66,529	215,989
Financial liabilities					
Due to credit institutions	94	100	50	0	244
Debt securities issued	8,182	20,515	100,212	81,210	210,118
Derivatives	141	100	-745	-790	-1,294
Total recognised financial liabilities	8,417	20,715	99,517	80,420	209,068
Loan commitments given	1,995	3,224	2,041	0	7,260
Total financial liabilities	10,412	23,938	101,558	80,420	216,328

Financial risk management

Note 1.11.2 Liquidity resources

The supervisory authority allows KommuneKredit to build up liquidity resources, based on pre-funding of up to 25 pct. of total lending at the end of the preceding quarter. The upper limit amounted to DKK 47.8 billion at the end of 2020, and KommuneKredit had liquidity resources of DKK 24.4 billion. The utilisation of the limit fluctuated throughout 2020, and the highest level of liquidity resources at the end of a month was 16 pct.

Liquidity resources are calculated as due to credit institutions, debt securities issued and derivatives less total lending and lease receivables recognised at carrying amount.

DKKm	2020	2019
Liquidity resources		
Due to credit institutions, debt securities issued and derivatives		
Due to credit institutions	50	244
Debt securities issued	212,728	218,932
Derivatives, liabilities	11,722	8,327
Derivatives, assets	-7,670	-6,610
Total due to credit institutions, debt securities issued and derivatives	216,830	220,893
Lending and leasing		
Lending	184,807	176,983
Leasing	7,650	7,982
Total lending	192,457	184,965
Liquidity resources	24,373	35,928
Liquidity resources cannot exceed 25 pct. of total lending at the end of the preceding quarter.		
Liquidity resources	24,373	35,928
Total lending at 30 September 2020	191,349	188,371
Liquidity resources, pct.	13	19

Administrative expenses

Note 2.1 Administrative expenses

Administrative expenses comprise staff costs and other administrative expenses, adjustment of pension obligations and amortisation/depreciation and impairment of intangible assets and property, plant and equipment. Actuarial adjustments and changes are recognised in the line item “actuarial gains and losses” in comprehensive income and not in administrative expenses.

Intangible assets and property, plant and equipment are measured at cost less accumulated amortisation/depreciation and impairment charges.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. Where individual components of an intangible asset or an item of property, plant and equipment have different useful lives, they are accounted for as separate items and amortised/depreciated separately.

Development costs regarding software comprise consultancy fees and other expenses attributable to KommuneKredit’s development activities. Development projects that meet the applicable accounting requirements are recognised as intangible assets. As for intangible assets and items of property, plant and equipment, amortisation/depreciation is provided on a straight-line basis over the expected useful lives of the assets or components, respectively, as follows:

- Intangible assets (software, etc.), 3 years
- Operating equipment, including IT equipment, 3-5 years
- Cars, 3-4 years

Land is not depreciated.

The carrying amounts are tested annually to determine whether there is any indication of impairment. When there is evidence that an asset may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset’s fair value less expected costs to sell and its value in use.

DKKm	2020	2019
Administrative expenses		
Salaries, remuneration, etc.	67	61
Pension contributions, etc.	9	9
Other staff costs	5	6
Consultancy fees	19	20
IT licenses	19	15
Charges	3	3
Property management	4	4
Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	1	2
Other administrative expenses	3	6
Total administrative expenses	130	126
Average number of employees	82	76

Developments in costs were driven by an increase in salaries because of a higher headcount and an increase in IT licences due to the relocation of KommuneKredit’s servers.

DKK'000	2020	2019
Fees to auditors as per the articles of association:		
Statutory audit of financial statements	439	439
Other assurance engagements	32	30
Other services	153	158
Total audit fees	624	627

Fees for other services comprise various statements and comfort letter for the annual update of the issuance programme, etc.

Administrative expenses

Note 2.2 Remuneration of the Board of Directors and Management

DKK'000	2020	2019
Remuneration of Management		
Remuneration of the Board of Directors		
Lars Krarup, Chairman	231	226
Thomas Lykke Pedersen, Vice Chairman	127	124
Martin Geertsen	77	75
Kaj V. Holm	82	75
Mikael Klitgaard	77	75
Erik Lauritzen	77	75
Leila Lindén	77	75
Erik Nielsen	77	77
Hans Toft	77	75
Birgit Aagaard-Svendsen (from 1 June 2020)	54	-
Total remuneration of the Board of Directors	956	877

The members of KommuneKredit's Board of Directors receive a fixed fee. In addition to the fixed fees, a committee fee is paid to the independent members of the Audit Committee.

DKK'000	Contractual remuneration	Pension	Total
Remuneration of the Management Board			
2020			
Jens Lundager, CEO	2,759	278	3,037
Henrik Andersen, Managing Director	2,094	207	2,301
Total			5,338
2019			
Jens Lundager, CEO	2,489	266	2,755
Henrik Andersen, Managing Director	1,919	203	2,122
Total			4,877

The Management Board is not covered by KommuneKredit's bonus plan.

Tax

Note 3.1 Tax on profit for the year

KommuneKredit computes tax on financial instruments based on the mark-to-market principle. The current corporate income tax rate is 22 pct.

Deferred tax is measured on all temporary differences between the carrying amount and the tax base of assets and liabilities. On this basis, the average tax rate is calculated at 22 pct.

Tax on profit for the year comprises current tax for the year, changes in deferred tax for the year, estimated tax on other comprehensive income and prior-year adjustments.

DKKm	2020	2019
Current tax	63	94
Deferred tax charge for the year	-3	54
Prior-year adjustments	0	0
Total tax on profit for the year	60	148
Tax on profit for the year is explained as follows:		
Estimated tax on the pre-tax profit for the year	61	131
Non-taxable income	-1	0
Non-deductible expenses	0	17
Prior-year adjustments to current tax	0	3
Adjustment of deferred tax relating to prior years	0	-3
Total tax for the year	60	148
Effective tax rate	22	25
Tax on other comprehensive income		
Tax on actuarial adjustment	0	0
Tax on other comprehensive income, total	0	0

Note 3.2 Current tax assets/liabilities

Current tax assets and tax liabilities are recognised in the balance sheet as the sum of current tax, prior-year tax receivables or payables and tax paid for the year.

The tax asset concerns a pending case in Switzerland regarding withholding tax on matured bond investments.

DKKm	2020	2019
Balance at 1 January	35	33
Current tax	0	0
Value adjustment for the year	0	2
Income taxes paid for the year	0	0
Total current tax assets	35	35
Balance at 1 January	-31	-63
Prior-year adjustments	0	-3
Current tax	-63	-94
Income taxes paid for the year	71	129
Total current tax liabilities	-23	-31

Tax

Note 3.3 Deferred tax liabilities

Deferred tax assets and tax liabilities are measured on all temporary differences between the carrying amount and the tax value of assets and liabilities. Deferred tax assets and tax liabilities are measured on the basis of the tax rules which will, given the legislation in force at the balance sheet date, apply once the deferred tax is expected to be triggered as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the statement of comprehensive income.

DKK m	2020	2019
Balance at 1 January	476	425
Prior-year adjustments	0	-3
Deferred tax charge for the year	-3	54
Total deferred tax liabilities	473	476
Deferred tax liabilities break down as follows:		
Property, plant and equipment and intangible assets	5	5
Assets held under leases	485	488
Pension obligations	-17	-17
Total deferred tax liabilities	473	476

Other notes

Note 4.1 Contingent assets and liabilities

In 2014, the Danish Customs and Tax Administration selected KommuneKredit for an audit, ordering KommuneKredit to pay additional payroll tax. KommuneKredit has appealed this decision to the Danish National Tax Tribunal where the case is pending. In KommuneKredit's opinion, KommuneKredit will most likely win the case, and no expense or provision has consequently been recognised in the financial statements.

KommuneKredit is in dialogue with Udbetaling Danmark regarding the administration of subsidised loans and the allocation of the payment of such loans. The outcome may be that KommuneKredit is to pay compensation. The size of such compensation is subject to much uncertainty, as a result of which KommuneKredit has not expensed or made a provision for this amount in its financial statements.

Note 4.2 Related parties

KommuneKredit has no related parties exercising control over KommuneKredit. KommuneKredit's related parties exercising significant influence comprise the members of KommuneKredit's Board of Directors and Management Board and their close family members.

Board of Directors and Management Board

Management's remuneration is disclosed in note 2.2. Fiduciary positions are mentioned in the "Corporate governance" section. No transactions were carried out with members of the Board of Directors and Management Board during the year.

Note 4.3 Events after the balance sheet date

No events have occurred after the balance sheet date that have a significant impact on KommuneKredit's results of operations.

Other notes

Note 5 IFRS 9 impairment

KommuneKredit uses the fair value option for a significant part of its balance sheet, as a result of which IFRS 9 only affects the measurement of leasing.

KommuneKredit grants loans and leasing exclusively to municipalities, regions and municipal companies with a full municipal guarantee. Danish municipalities and regions are subject to strict supervision by the Ministry of the Interior and Housing.

It has been decided by court order that Danish municipalities cannot file for restructuring proceedings. The Ministry of the Interior and Housing has laid down administrative rules (executive orders) to ensure that municipalities and regions maintain an adequate level of liquidity. Compliance with these rules is controlled and enforced by the ministry. Pursuant to the so-called “overdraft rule”, liquidity in a municipality, calculated as a 12-month average, must as a minimum be positive.

This means that all Danish municipalities and regions are highly creditworthy and subject to a low Probability of Default (PD). Therefore, they are all placed in the category with the lowest PD level. The strong creditworthiness is reflected in the applied PD value in which the Credit Default Swap (CDS) price on the Danish State is used as a proxy to determine the current value.

The CDS price on the Danish State is determined on the basis of observable market data, and the calculation of value impairment is made using the same LGD value as for determining the CDS prices.

As a result of the use of IFRS 9, the measurement of leasing includes an expected credit loss. This means that, already when the lease agreement is established, the undertaking must recognise an impairment charge at an amount equal to the expected credit losses resulting from default events within 12 months. The impairment is recognised in three stages depending on credit risk developments:

STAGE 1:

If the credit risk has not increased significantly, the impairment equals the expected credit losses resulting from default events that are possible within the next 12 months.

The impairment charge is recognised at the time when the lease agreement is established and is subsequently adjusted to reflect non-significant changes to the credit risk.

STAGE 2:

If the credit risk has increased significantly, the agreement is transferred to stage 2 and an impairment equal to the lifetime expected credit losses is recognised. A shift to stage 2 would take place in case of an increase in PD on the expected term to maturity of the financial asset of 100% and an increase in 12-month PD of 0.5 of a percentage point.

STAGE 3:

In the case of default or other credit impairment, the agreement is transferred to stage 3. Impairment is recognised using the same principles as in stage 2, but with the difference that interest income attributable to the write-down portion of the agreement is recognised on the basis of the write-down value.

When calculating the expected loss, the term to maturity of the agreement is capped at the contractual term. Model-calculated stage 1 and stage 2 impairment charges are based on formations of PD and LGD values at short term (12 months) or long term (term to maturity of agreement).

Throughout the history of KommuneKredit, there have been no losses on loans or leases to municipalities and regions, and therefore all leasing is classified as stage 1. There were no shifts between the stages during the reporting period.

Other notes

Note 5 IFRS 9 impairment – continued

Impairment at 31 December 2020 is shown in the table below, and all lease agreements were in stage 1 on the balance sheet date.

Impairment of assets at cost

DKKkm	PD level	Cost	Impairment	Carrying amount
Stage 1 (12-month expected loss)				
1 Jan. 2020	0.0% - 0.5%	7,984	2	7,982
Movement	-	-332	0	-332
31 Dec. 2020	0.0% - 0.5%	7,652	2	7,650

PD expresses the probability of default. At stage 1, the PD expresses the probability of the customer defaulting on its obligations towards KommuneKredit within the next 12 months.

LGD (Loss Given Default) expresses the proportion expected to be lost given default by the customer.

The change from 1 January to 31 December 2020 was exclusively due to a changed business volume.

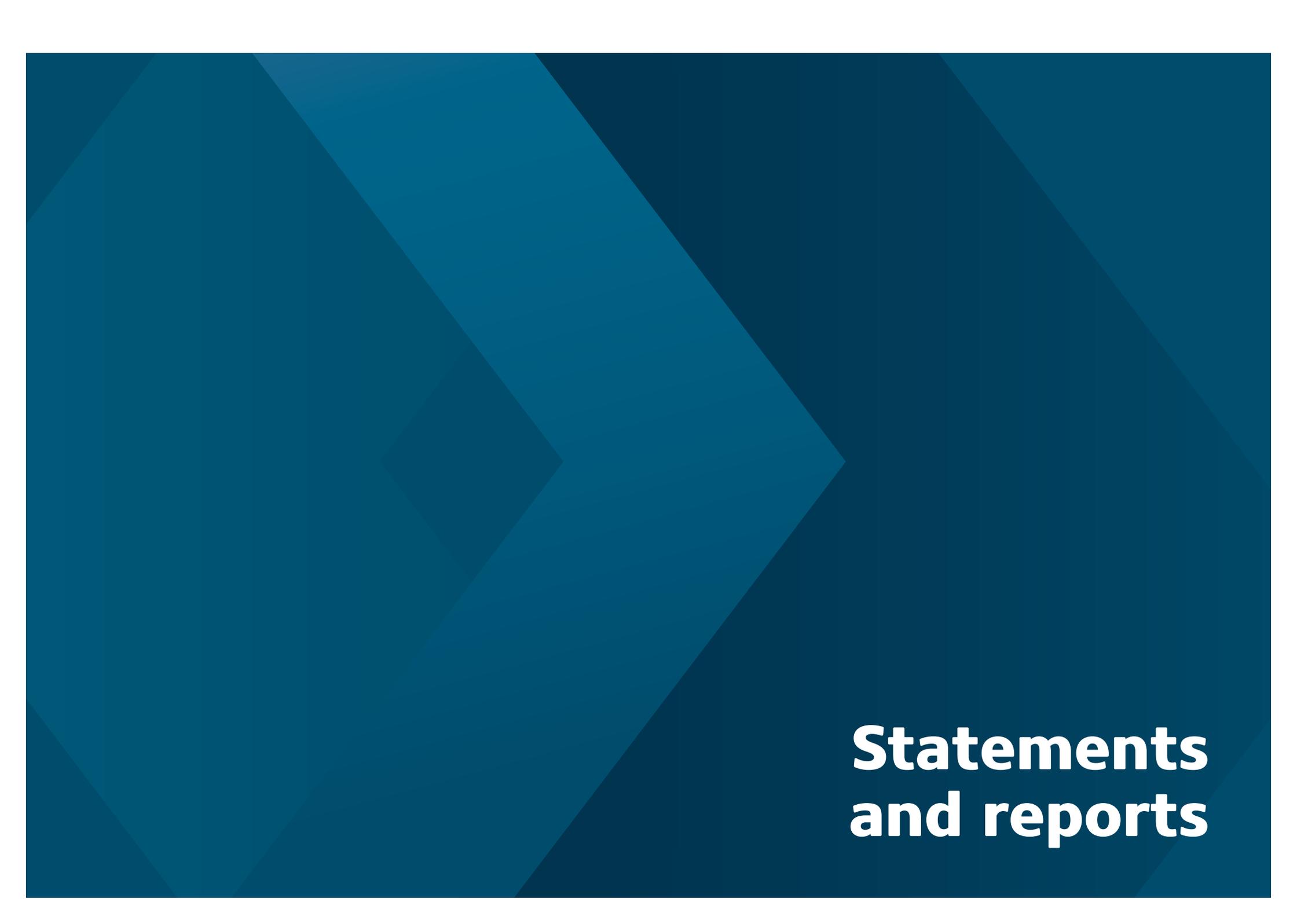
Other notes

Note 6 Key figures and financial ratios

Million	2020	2020	2019	2018	2017	2016
	EUR	DKK	DKK	DKK	DKK	DKK
Key figures						
Net interest income	59	440	496	441	637	656
Other operating income	2	15	13	11	11	10
Other operating expenses	-2	-14	-13	-12	-14	-10
Administrative expenses	-17	-130	-126	-127	-123	-106
Profit before value adjustments	42	311	369	314	511	550
Value adjustment of financial instruments	-4	-33	227	227	117	89
Tax on profit for the year	-8	-60	-148	-119	-138	-141
Comprehensive income for the year	29	218	441	405	489	497
Lending and leasing	25,881	192,457	184,965	177,454	173,580	168,589
Portfolio of securities	4,514	33,568	44,982	42,944	42,361	34,049
Assets	31,451	233,872	236,935	226,609	222,564	223,938
Debt securities issued	28,607	212,728	218,932	208,218	202,145	202,642
Equity	1,129	8,397	8,179	7,736	7,333	6,844
Activities during the year						
Lending and leasing, net additions in nominal value (net lending)	680	5,057	2,427	3,554	5,022	8,998
Lending and leasing, gross additions in nominal value	5,851	43,507	36,745	38,261	29,835	31,113
Debt securities issued, gross additions in nominal value	5,804	43,163	49,699	60,055	71,379	85,963

Million	2020	2020	2019	2018	2017	2016
	EUR	DKK	DKK	DKK	DKK	DKK
Capital structure						
Total risk exposure amount (REA)	1,546	11,496	11,911	13,843	17,544	7,393
Common Equity						
Tier 1 (CET1) capital	1,129	8,397	8,179	7,736	7,333	6,844
Capital base	1,113	8,277	7,997	7,520	7,121	6,324
Capital ratio, pct.	72	72	67	54	41	86
Equity ratio, pct.	3.6	3.6	3.5	3.4	3.3	3.1
Selected financial ratios						
Losses on lending and leasing	0	0	0	0	0	0
Expenses/assets, pct.	0.06	0.06	0.05	0.06	0.06	0.05
Net interest income/assets, pct.	0.19	0.19	0.21	0.19	0.28	0.29
Liquidity resources, pct.	13	13	19	19	20	16
Selected ESG figures						
CO ₂ e Scope 2 (indirect) (t)	16	16	18	21	20	23
Gender composition (women), pct.	41.1	41.1	39.9	42.6	43.9	46.6
Board meeting participation, pct.	82.1	82.1	83.3	86.1	80.6	86.1
Number of full-time employees	82	82	76	70	70	66

Key figures and financial ratios have been calculated in accordance with "Recommendations & Financial Ratios" issued by CFA Society Denmark. Exchange rate at 31 December 2020: EUR 100 = DKK 743.6126. The table includes selected ESG figures from the CSR report.

The background of the slide is a solid teal color with several overlapping, semi-transparent geometric shapes in various shades of teal, creating a layered, abstract effect. The shapes are primarily triangles and quadrilaterals, some pointing towards the center and others towards the corners.

Statements and reports

Statement by the Board of Directors and Management Board

The Board of Directors and the Management Board have today considered and adopted the annual report of KommuneKredit for the financial year 1 January – 31 December 2020.

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

It is our opinion that the financial statements give a true and fair view of the financial position of KommuneKredit at 31 December 2020 and of the comprehensive income of KommuneKredit's operations and cash flows for the financial year 1 January – 31 December 2020.

Further, in our opinion, the Management's review gives a true and fair view of the development in KommuneKredit's operations and financial matters, principal risks and uncertainties, the comprehensive income for the period and KommuneKredit's financial position as such.

Copenhagen, 11 March 2021

Management Board

Jens Lundager
Chief Executive Officer

Henrik Andersen
Managing Director

/Morten Sjøtofte
Director, CFO

Board of Directors

Lars Krarup
Chairman

Thomas Lykke Pedersen
Vice Chairman

Martin Geertsen

Kaj V. Holm

Mikael Klitgaard

Erik Lauritzen

Leila Lindén

Erik Nielsen

Hans Toft

Birgit Aagaard-Svendsen

Independent Auditor's Report

To the Board of Directors of
KommuneKredit

Opinion

We have audited the financial statements of KommuneKredit for the financial year 1 January - 31 December 2020, which comprise the statement of comprehensive income, financial position, statement of changes in equity, cash flow statement and notes, including the accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

In our opinion, the financial statements give a true and fair view of the Association's financial position at 31 December 2020 and of the results of its operations

and cash flows for the financial year 1 January – 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for issuers of listed bonds.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of the KommuneKredit in accordance with the IESBA Code of Ethics for Professional

Accountants and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of KommuneKredit for the first time on 26 August 2016 for the financial year 2017. We have until now therefore been appointed by decision of the Board of Directors for a total contiguous engagement period of four years up to and including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of financial assets and liabilities at fair value

The financial assets of KommuneKredit, including lending, portfolios of securities and positive derivatives, are measured at fair value, corresponding to 97% of total assets at 31 December 2020 (2019: 97%). The financial liabilities, including issued bonds and negative derivatives, are measured at fair value, corresponding to 96% of total liabilities at 31 December 2020 (2019: 96%).

As a result of materiality and complexity in connection with the valuation of financial assets and liabilities at fair values, this is a key audit matter in the audit. The principles governing the valuation are described in the accounting policies, and Management has further described the determination of fair values and the management of markets risks in the fair value adjustments etc. and financial risk management notes to the financial statements.

The fair values estimate is based on various assumptions and judgements, including both observable and non-observable data, which increases the degree of uncertainty. The areas which have therefore required increased attention in connection with the audit are recording of master data for contracts, the model and method application and the parameters:

- Currency margin
- Funding curves
- Credit spread
- Lending prices

How the matter was addressed in our audit

Our audit included review of relevant procedures, testing of key controls and analysis of the fair value changes.

Our audit procedures have also specifically included:

- Testing of correct and complete recording of master data for concluded contracts
- Assessment, testing and validation of the applied model and method for fair value calculation
- Assessment and testing of relevance and accuracy for the key parameters applied in connection with the valuation.

Finally, the audit included testing of disclosure requirement compliance for the financial assets, liabilities and derivatives.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially consistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, our responsibility is to consider whether the Managements' review contains the required information in accordance with Danish disclosure requirements for issuers of listed bonds.

Based on our procedures, we are of the opinion that the Management's review is in accordance with the financial statements and prepared in accordance with Danish disclosure requirements for issuers of listed bonds. We did not identify any misstatement of the Management's review.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards

as adopted by the EU, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Association's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in the preparation of the financial statements unless Management either intends to liquidate the Association or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs and additional requirements applicable in Denmark, we exercise

professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in the preparation of the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Association's ability to continue as a going concern. If we

conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Association to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 11 March 2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Anders Oldau Gjelstrup

State-Authorised
Public Accountant
MNE no mne10777

Bjørn Würtz Rosendal

State-Authorised
Public Accountant
MNE no mne40039

Report by the auditor appointed by the ministry

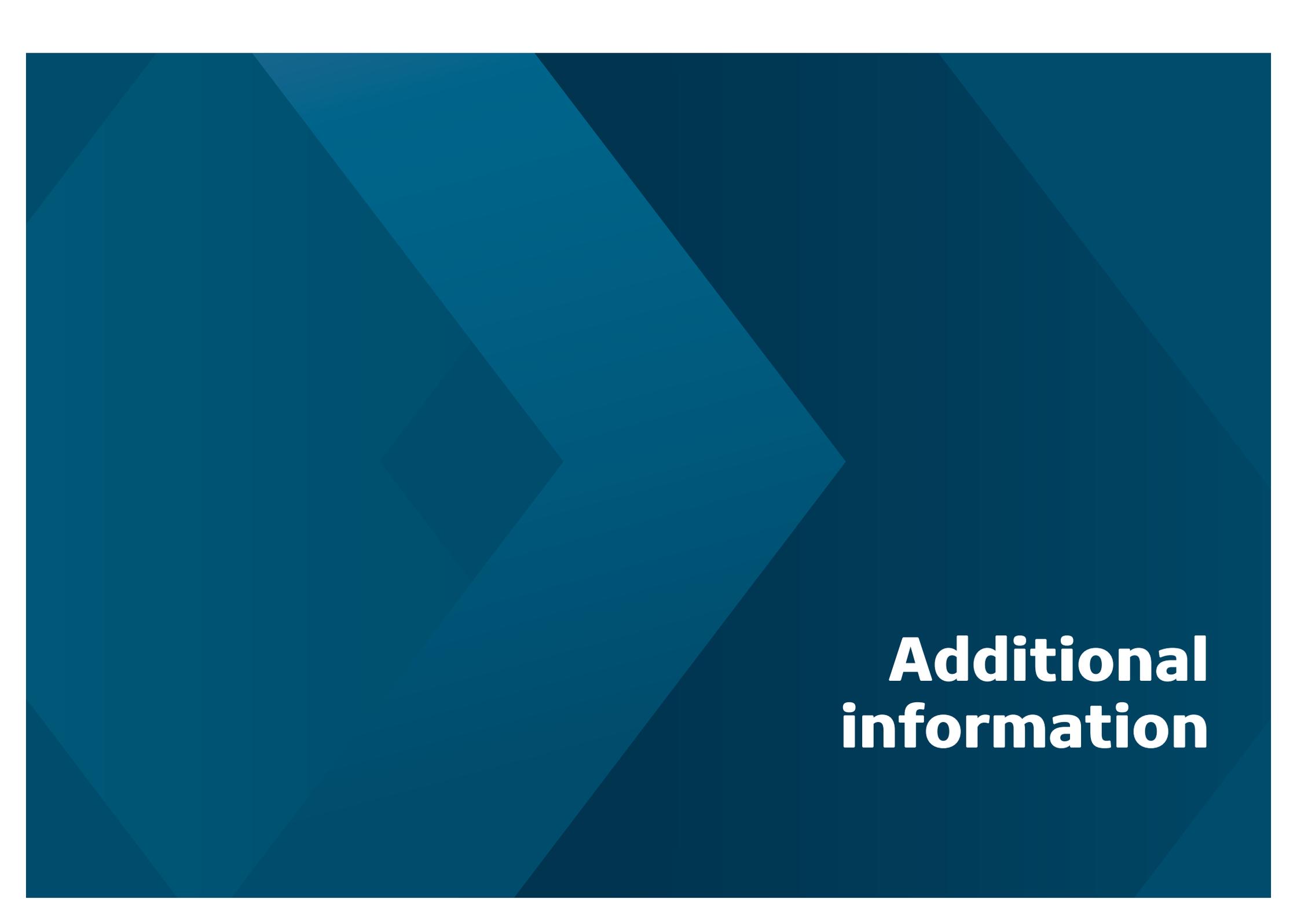
To the Board of Directors
of KommuneKredit

As the auditor appointed by the Ministry, I have reviewed the financial statements of KommuneKredit for the financial year 1 January – 31 December 2020, prepared by Management. In addition, I have read the Management's review.

During my review, I did not identify any non-compliance with the Danish act governing KommuneKredit or KommuneKredit's articles of association. The audit procedures performed by Deloitte did not give rise to any comments on my part.

Copenhagen, 11 March 2021

Thorkil Juul



**Additional
information**

Definitions and formulas

Benchmark: Public issues under a standard loan programme. Maturities often vary between 3 and 10 years depending on currency.

Capital base: Common equity tier 1 (CET1) capital less various deductions (e.g. prudent valuation, current losses, intangible assets).

Capital ratio =
$$\frac{\text{Capital base}}{\text{Total risk exposure amount (REA)}}$$

The capital ratio is calculated in accordance with the solvency requirements for financial institutions.

Co2e Scope 2: Indirect emissions of CO₂ from purchased energy (such as electricity and district heating).

Collateral agreement (Credit Support Annex): Agreement between financial counterparties regarding exchange of collateral in case of fluctuations in the market value of derivatives.

Common equity tier 1 (CET1) capital: Equity less various deductions, which in KommuneKredit's case is zero.

Cross-Transaction Payment Netting: When payments are netted into one net payment across multiple transactions.

CRR/CRD IV: Capital Requirements Regulation and Capital Requirements Directive IV are the European implementation of the international Basel III rules on, among other things, financial institutions' capital and liquidity resources.

CVA/DVA: Credit Value Adjustment (CVA) designates the value by which derivatives must be adjusted to reflect the probability of a counterparty's default. Debt Value Adjustment (DVA) designates the value by which derivatives must be adjusted to reflect the probability of KommuneKredit's default.

Cyclical fluctuations: Cyclical fluctuations are the rises and falls in economic activity in the Danish society over a long period of time.

ECP: European Commercial Paper. Issues under a standard loan programme with a short term to maturity.

Equity ratio =
$$\frac{\text{Equity}}{\text{Total assets}}$$

Funding spread: KommuneKredit's funding spread is its funding costs relative to the variable market rate in DKK. In other words, the funding spread is the price of KommuneKredit's funding in DKK.

GELx index: Global Employee and Leadership Index (GELx) is a global benchmark survey measuring work enjoyment, commitment and management.

Green Bond Framework: The framework for KommuneKredit's issue of green bonds, including the criteria defining which loan purposes may be classified as green.

Haircut: Deductions in the quoted price of bonds, the size depending on the liquidity properties of the bond.

HQLA: High-quality liquid assets.

ISDA Master Agreement: Bilateral framework agreement and master netting agreement for trading in OTC derivatives between financial counterparties.

Kangaroo: Issues in AUD primarily for Australian and Japanese investors under a standardised loan programme.

LIBOR: London Interbank Offered Rate is a daily reference rate based on the interest rates for unsecured loans charged among banks in London's money market. The interest rate is set by the British Bankers' Association on the basis of quotes from the most active banks in the money market.

Liquidity Coverage Ratio (LCR): Indicates the ratio between the portfolio of liquid assets and the net runoff from cash flows over a 30-day horizon in a stress scenario. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRD IV.

Liquidity resources: Amounts due to credit institutions, debt securities issued and derivatives minus lending.

Local authority mandate: The rules on local authority mandates are based on unwritten legal doctrines that allow municipalities to undertake assignments and make certain financial transactions of an economic nature without explicit statutory authority.

Nasdaq Copenhagen: Bonds listed on the stock exchange in Copenhagen. These bonds are often denominated in DKK.

Net lending: Net additions of loans and leasing in nominal value.

Net Stable Funding Ratio (NSFR): The ratio between defined stable funding and the estimated need for stable funding. The financial ratio was introduced in connection with Basel III and subsequently CRR/CRD IV.

Private placement: An issue directed at a single investor. Issues may be denominated in different currencies and maturities.

Risk tolerance: The level of risk a business is willing to accept.

Risk weight: Weight attributed to the individual exposures when calculating the capital ratio. Given by the solvency rules for credit institutions.

STP: In the financial sector, Straight-through-processing (STP) defines financial transactions with no manual intervention involved.

Structured notes: Structured notes are typically a mixture of a bond and an embedded element of derivatives (most often options) which provides exposure to other forms of investment assets, for example developments in a price, interest rate or equity index or a selection of equities.

Total liquidity resources: The total liquidity resources are composed of equity and liquidity resources.

Total risk exposure amount (REA) The value of total assets when calculating the capital ratio, allowing for the risk weight of the exposure. Total risk exposure amount is calculated in accordance with the solvency requirements for financial institutions.

Uridashi: Issue for the Japanese retail market under a standard loan programme.

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Design and production Noted

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Please direct questions regarding bond issuance to:
Jette Moldrup, Director, Head of Treasury

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